A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the Provinces of British Columbia, Alberta, Manitoba, Saskatchewan and Ontario but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons authorized to sell such securities. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or applicable state securities laws, and may not be offered or sold within the United States unless exemptions from the registration requirements of the U.S. Securities Act and all applicable state securities laws are available. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Treasury Metals Inc., at their head and registered office located at 130 King St. West, Suite 3680, P.O. Box 99, Toronto, Ontario, M5X 1B1, telephone: (416) 214-4654, and are also available electronically at www.sedar.com.*

PRELIMINARY SHORT FORM PROSPECTUS

New Issue **August 4, 2011**

TREASURY METALS

INCORPORATED

$●

● Common Shares

This short form prospectus ("Prospectus") qualifies the distribution (the "Offering") of up to ● common shares (the "Common Shares") of Treasury Metals Inc. (the "Company") at a price of $● per Common Share (the "Offering Price") in the Provinces of British Columbia, Alberta, Manitoba, Saskatchewan and Ontario (the "Qualifying Jurisdictions").

On May 18, 2011, the Company entered into an agreement (the "Acquisition Agreement") with a subsidiary of Pan American Silver Corp. ("Pan American") to purchase, indirectly, 100% of the Pico Machay Gold Project. Pursuant to the terms of the Acquisition Agreement, the Company has agreed to pay Pan American a total of US$21 million in cash and issue 11.5 million Common Shares. In addition, the Company was granted the option to satisfy up to US$10.5 million of the cash portion of the purchase price through the issuance of a secured promissory note. See "Proposed Acquisiton of the Pico Machay Gold Project". Upon completion of the Pico Machay Acquisition, Pan American will hold, directly or indirectly, approximately 19.70% of the issued and outstanding Common Shares calculated prior to taking into account the Offering.

The Common Shares will be issued and sold pursuant to an agency agreement (the "Agency Agreement") between Cormark Securities Inc. and Canaccord Genuity Corp. (collectively, the "Agents") and the Company. The Offering Price was determined by negotiation between the Company and the Agents. See "Plan of Distribution". **Cormark Securities Inc. is acting as advisor to the Company in connection with the Pico Machay Acquisition and will receive an advisory fee in respect of those services. Accordingly, the Company may be considered to be a "connected issuer" of Cormark Securities Inc. within the meaning of applicable Canadian securities legislation. See "Relationship Between the Company and the Agents."**

The Company's Common Shares are listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol "TML". The Company has applied to list the Common Shares qualified for distribution under this Prospectus, as well as the Common Shares issuable upon exercise of the Broker Warrants (as defined herein), on the TSX. Listing will be subject to the Company fulfilling all of the requirements of the TSX. The closing price of the Common Shares on the TSX on August 3, 2011 (the last trading day before the date hereof) was $1.24.

Price $● per Common Share

	Price to the Public	Agents' Fee[1]	Net Proceeds to the Company[2]
Per Common Share	$●	$●	$●
Total	$●	$●	$●

(1) In consideration of the services rendered by the Agents in connection with the Offering, the Company has agreed to pay a cash commission to the Agents equal to 6% of the gross proceeds raised in the Offering (the "Agents' Fee"). The Agents' Fee will be paid on the Closing Date (as defined herein).

(2) Before deducting the expenses of the Offering, estimated to be $●, which will be paid out of the net proceeds to the Company.

This Prospectus also qualifies the issue by the Company of non-transferable Broker Warrants ("Broker Warrants") to the Agents and the Common Shares issuable by the Company to the Agents upon exercise of the Broker Warrants. The Broker Warrants entitle the Agents to purchase an aggregate number of Common Shares equal to 6% of the number of Common Shares sold pursuant to the Offering at the Offering Price at any time until 5:00 p.m., Toronto time, on the second anniversary of the Closing Date.

Agents' Position	Maximum Size or Number of Securities Held	Exercise Period/ Acquisition Date	Exercise Price or Average Acquisition Price
Broker Warrants	● Common Shares	24 months	$●

The Agents conditionally offer the Common Shares, subject to prior sale, on a best efforts basis, if, as and when issued and sold by the Company in accordance with the conditions contained in the Agency Agreement and subject to the approval of certain legal matters on behalf of the Company by Heenan Blaikie LLP, Toronto, Ontario, and on behalf of the Agents by Cassels Brock & Blackwell LLP, Toronto, Ontario. See "Plan of Distribution".

Subscriptions for Common Shares offered hereunder will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. At the closing of this Offering, the Common Shares qualified for distribution under this Prospectus will be issued only through non-certificated interests issued under the Book-Entry Only System administered by CDS Clearing and Depository Services Inc. ("CDS"). No certificates evidencing the Common Shares will be issued to subscribers except in certain limited circumstances, and registration and transfers will be made in the depositary service of CDS. Subscribers for Common Shares will receive only a customer confirmation from the Agents or another registered dealer who is a CDS participant and from or through whom a beneficial interest in the Common Shares is purchased. Closing of this Offering is expected to occur on or about August 25, 2011 or such other date as the Company and the Agents may agree (the "Closing Date").

Investing in the Common Shares and the Common Shares issuable upon exchange thereof, involves risk. Prospective investors should consider the risk factors described under "Risk Factors" before purchasing Common Shares.

Investors should rely only on the information contained in or incorporated by reference into this Prospectus. The Company has not authorized anyone to provide investors with different information. Neither the Company nor the Agents are making an offer of these securities in any jurisdiction where the offer is not permitted. Investors should not assume that the information contained in this Prospectus is accurate as of any date other than the date of this Prospectus. The Company's business, operating results, financial condition and prospects may have changed since such date.

TABLE OF CONTENTS

GLOSSARY OF TECHNICAL TERMS

In this Prospectus:

Ag	means silver;
As	means arsenic;
Au	means gold;
Bi	means bismuth;
Cu	means copper;
Feasibility Study	means a comprehensive technical and economic study of the selected development option for a mineral project that includes appropriately detailed assessments of realistically assumed mining, processing, metallurgical, economic, marketing, legal, environmental, social and governmental considerations together with any other relevant operational factors and detailed financial analysis, that are necessary to demonstrate at the time of reporting that extraction is reasonably justified (economically mineable). The results of the study may reasonably serve as the basis for a final decision by a proponent or financial institution to proceed with, or finance, the development of the project. The confidence level of the study will be higher than that of a Preliminary Feasibility Study;
g/t	means grams per tonne;
Hg	means mercury;
Indicated Mineral Resource	means that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonable assumed;
Inferred Mineral Resources	means that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes;
lb	means pound;
m	means metre;
Mo	means molybdenum;
Measured Mineral Resource	means that part of a Mineral Resource for which quantity, grade or quality, densities, shape, and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity;

Mineral Reserves	means the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. Mineral Reserves are those parts of Mineral Resources which, after the application of all mining factors, result in an estimated tonnage and grade which, in the opinion of the Qualified Person(s) making the estimates, is the basis of an economically viable project after taking account of all relevant processing, metallurgical, economic, marketing, legal, environment, socio-economic and government factors. The term 'Mineral Reserve' need not necessarily signify that extraction facilities are in place or operative or that all governmental approvals have been received;
Mineral Resource	means a concentration or occurrence of base and precious metals, natural solid inorganic material, or natural solid fossilized organic material including coal and diamonds in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. The term Mineral Resource covers mineralization and natural material of intrinsic economic interest which has been identified and estimated through exploration and sampling and within which Mineral Reserves may subsequently be defined by the consideration and application of technical, economic, legal, environmental, socio-economic and governmental factors. The phrase 'reasonable prospects for economic extraction' implies a judgment by the Qualified Person in respect of the technical and economic factors likely to influence the prospect of economic extraction. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability;
NI 43-101	means Canadian Securities Administrators' National Instrument 43-101, Standards of Disclosure for Mineral Projects;
ounce	means troy ounce;
Preliminary Economic Assessment	means the study entitled "Technical Report and Preliminary Economic Assessment on the Goliath Gold Project Kenora Mining Division Northwestern Ontario, Canada for Treasury Metals Incorporated" dated July 9, 2010 and prepared by Douglas Roy, M.A.Sc., P.Eng., Patrick Hannon, M.A.Sc., P.Eng., Edward Thornton, P.Eng. and Ian Trinder, M.Sc., P.Geo. of A.C.A. Howe International Limited, which includes an economic analysis of the potential viability of a Mineral Resource;
Preliminary Feasibility Study	means a comprehensive study of a range of options for the technical and economic viability of a mineral project that has advanced to a stage where a preferred mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, is established and an effective method of mineral processing is determined. It includes a financial analysis based on reasonable assumptions on mining, processing, metallurgical, economic, marketing, legal, environmental, social and governmental considerations and the evaluation of any other relevant factors which are sufficient for a Qualified Person, acting reasonably, to determine if all or part of the Mineral Resource may be classified as a Mineral Reserve;

Proven Mineral Reserve	means the economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. Such study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified;
Pb	means lead;
Qualified Person	means an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; has experience relevant to the subject matter of the mineral project and the technical report; and is a member or licensee in good standing of a professional association;
Sb	means antimony;
Technical Report	means the independent technical report entitled "Independent Technical Report and Resource Estimate, Pico Machay Gold Project, Huancavelica Province, Peru for Treasury Metals Incorporated" dated July 14, 2011 prepared by Dorris Fox, M.Sc., P. Geo, and Douglas Roy, M.A.Sc., P. Eng. of A.C.A. Howe International Limited, in accordance with NI 43-101;
ton	means 2,000 pounds;
tonne	means metric tonne, equaling 1,000 kilograms;
tpd	means tonnes per day; and
Zn	means zinc.

UNITS AND CURRENCY

Currency Presentation and Exchange Rate Information

This Prospectus contains references to the Canadian dollar and the US dollar. All dollar amounts referenced, unless otherwise indicated, are expressed in Canadian dollars. US dollars are referred to as "U.S. dollars" or "US$". As at August 3, 2011, the noon buying rate as reported by the Bank of Canada was US$1.00 = CDN$0.96 or CDN$1.00 = US$1.04.

Metric Equivalent Table

The following table sets forth certain factors for converting imperial measurements into metric equivalents:

To Convert Imperial Measurement Units	To Metric Measurement Units	Multiply By
Acres	Hectares (ha)	0.404686
Feet	Metres (m)	0.30480
Miles	Kilometres (km)	1.609344
Ounces	Grams (g)	31.1035
Pounds	Kilograms (kg)	0.45359
Short tons	Tonnes (t)	0.907185
Ounces per ton	Grams per tonne (g/t)	34.2857

ELIGIBILITY FOR INVESTMENT

In the opinion of Heenan Blaikie LLP, counsel to the Company, and Cassels Brock & Blackwell LLP, counsel to the Agents, provided that the Common Shares are listed on a designated stock exchange (which currently includes the TSX) on the Closing Date, the Common Shares offered hereby will be qualified investments under the *Income Tax Act* (Canada) (the "Tax Act") for trusts governed by registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), registered disability savings plans, deferred profit sharing plans, registered education savings plans and tax-free savings accounts ("TFSA") as defined in the Tax Act.

Notwithstanding that Common Shares may be qualified investments for a trust governed by a TFSA, the holder of a TFSA will be subject to penalty tax in respect of the Common Shares if such properties are a "prohibited investment" (as defined in the Tax Act) for the TFSA. In the 2011 federal Budget released on June 6, 2011, the Minister of Finance (Canada) proposed amendments to the Tax Act to extend the "prohibited investment" rules to RRSPs and RRIFs (the "RRSP/RRIF Proposals"). Common Shares will not generally be a prohibited investment provided that the holder of the TFSA (or, under the RRSP/RRIF Proposals, the annuitant under the RRSP or RRIF, as applicable), deals at arm's length with the Company for purposes of the Tax Act and does not have a "significant interest" (within the meaning of the Tax Act) in the Company or in any corporation, partnership or trust with which the Company does not deal at arm's length for purposes of the Tax Act.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Prospectus and the documents incorporated by reference herein contain "forward-looking statements" or "forward-looking information" within the meaning of Canadian securities legislation. These forward-looking statements are made as of the date of this Prospectus or, in the case of documents incorporated by reference herein, as of the date of such documents.

In certain cases, forward-looking statements can be identified by the use of words such as "believe", "intend", "may", "will", "should", "plans", "anticipates", "believes", "potential", "intends", "expects" and other similar expressions. Forward-looking statements reflect the current expectations and assumptions of management, and are subject to a number of known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements to be materially different from any anticipated future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements, particularly as they relate to the completion of the acquisition of the Pico Machay Gold Project, the actual results of exploration activities, actual results of reclamation activities, the estimation or realization of Mineral Resources, the timing and amount of estimated future production, capital expenditures, costs and timing of the development of new mineral deposits, requirements for additional capital, and the future prices of precious and base metals, are inherently uncertain. In addition, the timing and magnitude of certain events are inherently risky and uncertain, particularly as they relate to the possible variations in ore grade or recovery rates, failure of plant, equipment or processes to operate as anticipated, accidents, labour disputes, road blocks and other risks of the mining industry, delays in obtaining governmental approvals, permits or financing or in the completion of development or construction activities, currency fluctuations, title disputes or claims limitations on insurance coverage and the timing and possible outcome of pending litigation.

Key assumptions upon which the Company's forward-looking statements are based include the following:

- the Company's ability to complete the acquisition of the Pico Machay Gold Project;
- the Company's ability to successfully integrate, develop and operate the Pico Machay Gold Project;
- the prices for gold and, to a lesser extent, silver will not fall significantly;
- the assumptions in the financial analysis in the Technical Report are correct;
- the Company will be able to secure new financing to continue its exploration, development and operational activities;
- there being no significant adverse changes in currency exchange rates;

- there being no significant changes in the ability of the Company to comply with environmental, safety and other regulatory requirements;
- the Company being able to obtain regulatory approvals (including licenses and permits) in a timely manner;
- the absence of any material adverse effects arising as a result of political instability, taxes or royalty increases, terrorism, sabotage, natural disasters, equipment failures or adverse changes in government legislation or the socio-economic conditions in the regions in which the Company operates;
- the Company's ability to achieve its growth strategy;
- the Company's operating costs will not increase significantly;
- key personnel will continue their employment with the Company; and
- the Company will have access to all equipment necessary to operate the Pico Machay Gold Project.

These assumptions should be considered carefully by investors. Investors are cautioned not to place undue reliance on the forward-looking statements or the assumptions on which the Company's forward-looking statements are based. Investors are advised to carefully review and consider the risk factors identified in this Prospectus under the heading "Risk Factors" and in the other documents incorporated by reference herein for a discussion of the factors that could cause the Company's actual results, performance and achievements to be materially different from any anticipated future results, performance or achievements expressed or implied by the forward-looking statements. Investors are further cautioned that the foregoing list of assumptions is not exhaustive and it is recommended that prospective investors consult the more complete discussion of the Company's business, financial condition and prospects that is included in this Prospectus, including the documents incorporated by reference herein. The forward-looking statements contained in this Prospectus are made as of the date hereof and, accordingly, are subject to change after such date.

Although the Company believes that the assumptions on which the forward-looking statements are made are reasonable, based on the information available to the Company on the date such statements were made, no assurances can be given as to whether these assumptions will prove to be correct. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except as, and to the extent, required by applicable securities laws. The forward-looking statements contained in this Prospectus and the documents incorporated by reference herein are expressly qualified by this cautionary statement.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed by the Company with the securities commissions or similar regulatory authorities in Canada are specifically incorporated by reference into, and form an integral part of, this Prospectus:

(a) Annual information form dated March 31, 2011, in respect of the financial year ended December 31, 2010 (“AIF”);

(b) Audited annual consolidated financial statements and the notes thereto for the financial years ended December 31, 2010 and 2009 together with the auditors’ report thereon;

(c) Management’s discussion and analysis of financial condition and results of operations for the financial year ended December 31, 2010;

(d) Unaudited interim financial statements and the notes thereto for the three months ended March 31, 2011;

(e) Management’s discussion and analysis of financial condition and results of operations for the three months ended March 31, 2011;

(f) Material change report dated March 22, 2011 with respect to the closing of a private placement of securities of the Company;

(g) Management information circular for the annual general meeting of shareholders dated May 11, 2011;

(h) Material change report dated May 20, 2011 with respect to the Pico Machay Acquisition; and

(i) Material change report dated August 3, 2011 with respect to an amendment to the Acquisition Agreement.

Any documents of the foregoing type, and all other documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in this Prospectus, which may be filed by the Company with a securities commission or similar regulatory authority in Canada after the date of this Prospectus and before completion or withdrawal of the Offering will be deemed to be incorporated by reference into this Prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not constitute a part of this Prospectus, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of such a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Copies of documents incorporated herein by reference may be obtained upon request without charge from the Company at The Exchange Tower, 130 King Street West, Suite 3680, P.O. Box 99, Toronto, Ontario, M5X 1B1. These documents are also available through the Internet on SEDAR, which can be accessed at www.sedar.com.

THE COMPANY

The Company was incorporated under the name Divine Lake Exploration Inc. by articles of incorporation (the "Articles") dated December 31, 1997 under the *Business Corporations Act* (Ontario). The Articles were amended on November 13, 2007 to change the name of the Company to Treasury Metals Inc. and on March 20, 2008 to remove certain restrictions on the transfer of the Common Shares.

The registered and head office of the Company is located at The Exchange Tower, 130 King Street West, Suite 3680, Box 99, Toronto, Ontario M5X 1B1.

The Company is a reporting issuer in British Columbia and Ontario. The Common Shares are listed on the Toronto Stock Exchange (the "TSX") under the symbol "TML".

The Company has no subsidiaries.

SUMMARY DESCRIPTION OF BUSINESS

The Company is a Canadian-based mineral exploration and development company, with a growth-oriented strategy focused on expanding its gold resources, developing its Canadian mineral properties and potentially acquiring additional advanced gold projects.

The Company's flagship asset is the Goliath Gold Project, an advanced stage, high-grade gold deposit near Dryden, Ontario. A positive NI 43-101 compliant Preliminary Economic Assessment ("PEA") was completed on the Goliath Gold Project in 2010. In addition, the Company has a secondary project, the Goldcliff Project, which is located south of Dryden along the Manitou Straits Fault and in the vicinity of the historic Goldrock mining camp. The PEA included a resource estimate for the Goliath Gold Project (the "Resource Estimate"), based on diamond drilling completed as at December 2009. Surface resources were defined using a block cut-off grade of 0.5 g/t Au (resources <100 metres deep) and 2.0 g/t Au for underground resources (resources >100 metres deep). The Resource Estimate contains non-diluted underground Indicated Resources of 490,000 tonnes grading 5.7 g/t Au (90,000 ounces) and non-diluted underground Inferred Mineral Resources of 5,200,000 tonnes grading 4.4 g/t Au (740,000 ounces) and non-diluted surface Indicated Resources of 2,900,000 tonnes grading 1.9 g/t Au (180,000 ounces) and non-diluted surface Inferred Mineral Resources of 5,400,000 tonnes grading 1.1 g/t Au (190,000 ounces).

The Company's board of directors and management team include seasoned mining industry veterans, with experience in finding and developing mineral assets and building shareholder value.

In 2010, the Company took significant steps to advance its business and implemented a base for further growth. This included the appointment of a new management team, the acquisition of additional properties in the Kenora Mining District and continued exploration success at the Goliath Gold Project. The Company believes that the Goliath Gold Project and Goldcliff Project each have potential and will continue to focus on advancing these assets in 2011.

The objectives of the Company are to (i) target, review and, if desirable, acquire and develop advanced gold assets in Canada and in geopolitically stable regions of The Americas such as Peru; (ii) increase and improve the confidence in the current mineral resources across the Goliath Gold Project and concurrently investigate the sensitivities to develop these resources towards a Feasibility Study; and (iii) enhance its geological knowledge of the Goldcliff Project and develop targets on the property for future drilling programs.

PROPOSED ACQUISITION OF PICO MACHAY GOLD PROJECT

General

On May 18, 2011, the Company entered into an agreement to purchase 100% of the Pico Machay Gold Project from Pan American (the "Pico Machay Acquisition"), through the acquisition of all of the issued and outstanding shares of Absolut Resources Inc. ("Absolut") from Pan American's wholly owned subsidiary, Aquiline Resources Inc. ("Aquiline"). Absolut is a corporation existing under the laws of the Yukon, whose business consists primarily of exploration and development of the Pico Machay Gold Project located in the Province of Huancavelica, Peru. Absolut owns 100% of the issued and outstanding shares of Pico Machay Cayman Limited ("Pico Cayman"), a corporation existing under the laws of the Cayman Islands. Absolut also owns 100% of the issued and outstanding shares of Minera Calipuy S.A.C. ("Minera Calipuy"), a corporation existing under the laws of Peru. Together Pico Cayman and

Minera Calipuy own 100% of the issued and outstanding shares of Minera Pico Machay S.A.C. ("Pico Peru"), a corporation existing under the laws of Peru. Pico Peru holds the registered title to 100% of the Pico Machay Gold Project.

The Pico Machay Acquisition is conditional upon, among other things, the receipt of all required regulatory approvals, including the approval of the TSX, and the completion by the Company of the Offering to fund the cash consideration payable to Aquiline. On July 29, 2011 the Acquisition Agreement was amended to, among other things, extend the outside date for the closing of the Pico Machay Acquisition to August 31, 2011.

Reasons for the Acquisition

The Company believes that the Pico Machay Acquisition will provide it with:

- near-term production potential, as a conventional low cost, low stripping ratio, run-of-mine heap leach operation with low capital investment required;
- potential to increase the current resource which includes Measured and Indicated Resources of 270,000 ounces (Measured 140,000 and Indicated 130,000) and Inferred Mineral Resource of 450,000 ounces (using 0.30 g/t gold cut-off); and
- the ability to capitalize on high gold prices and potential operating margins that will fund further exploration and development work both in Ontario and Peru.

Summary of Acquisition Agreement

The following is a summary of the principal terms of the Acquisition Agreement. Reference should be made to the Acquisition Agreement, as amended by the Amending Agreement between the Company and Aquiline dated July 29, 2011, for a complete review of the terms and conditions regarding the Pico Machay Acquisition.

Purchase Price

Pursuant to the terms of the Acquisition Agreement, the Company agreed to pay a total of US$21 million in cash and issue 11.5 million Common Shares to Aquiline. The Company was granted the option to satisfy up to US$10.5 million of the cash portion of the purchase price through the issuance of a secured promissory note (the "Note"). If the Company elects to pay a portion of the purchase price through the issuance of the Note, the Company will be required to pay Aquiline a one-time commitment fee (the "Commitment Fee") equal to 12% per annum, compounded monthly, on the principal amount of the Note. The Commitment Fee is payable on or before December 31, 2011. The Company will have the right to prepay the Note, the Commitment Fee and all accrued interest at any time. If the Company does not repay the whole of the principal and the Commitment Fee to Aquiline on or before December 31, 2011, interest will accrue on the amounts of the principal and the Commitment Fee, then outstanding, at a rate of 17% per annum, compounding monthly beginning from January 1, 2012, and increasing by a rate of 5% every calendar month until repayment in full of the amounts of the principal and the Commitment Fee, then outstanding, and all accrued interest thereon. The Note will be secured by a pledge of the shares of Absolut, a general security agreement executed by the Company, a general security agreement executed by Absolut, and such other documentation as may be requested by Aquiline and Aquiline's counsel, acting reasonably, to evidence Aquiline's security interest in the Pico Machay Gold Project and all of the issued and outstanding shares of Absolut and its subsidiaries. In connection with the issuance of the Note, Aquiline will also be permitted to undertake a pre-closing reorganization of Pico Peru whereby Pico Peru will issue a special voting share of Pico Peru, to Aquiline, with share rights that, among other things, provide Aquiline with the right to prevent the encumbrance or the disposition of the Pico Machay Gold Project until repayment in full of the amounts of the principal and the Commitment Fee, then outstanding, and all accrued interest thereon. The Company issued 1.0 million Common Shares to Aquiline on May 18, 2011. The balance of 10.5 million Common Shares are to be issued on the Acquisition Closing Date, at which time Pan American will hold, directly or indirectly, approximately 19.70% of the issued and outstanding Common Shares of the Company, calculated prior to taking into account the Offering. The Company will have the right to direct the sale of any of the Common Shares issued to Aquiline for a two-year period following the closing of the Pico Machay Acquisition in certain circumstances. In the event Aquiline unilaterally refuses to complete the Pico Machay Acquisition or is in fundamental breach of the terms of the Acquisition Agreement, such that the Company cannot complete the Pico

Machay Acquisition, Aquiline will return to the Company the 1.0 million Common Shares issued to it on May 18, 2011.

Royalty

Subject to the prior written consent of NWM Mining Corporation (formerly Columbia Metals Corporation Limited) (the "Consent"), Aquiline shall assign its 2% net smelter royalty interest in the La Jojoba Property located near Magdalena de Kino, Sonora, Mexico (the "Royalty"), which Royalty is established pursuant to an agreement between Aquiline and Columbia Metals Corporation Limited dated March 16, 2005, to Absolut on or prior to the Closing Time. Subject to Aquiline's ability to obtain the Consent, the Company will acquire indirectly the Royalty in connection with the Pico Machay Acquisition. Aquiline will use its commercially reasonable efforts to obtain the Consent prior to the Acquisition Closing Time, however, Aquiline shall not be obligated to undertake any action to obtain the Consent that would result in Aquiline incurring an out-of-pocket expense which is not funded by the Company. Neither Aquiline's obtaining the Consent, nor the assignment of the Royalty to Absolut, shall be a condition precedent to the Company's obligation to complete the Pico Machay Acquisition, and Aquiline's failure to assign the Royalty to Absolut prior to the Acquisition Closing Time, where Aquiline has been unable to obtain the Consent, shall not be construed as a breach of the terms of the Acquisition Agreement.

Representations and Warranties

The Acquisition Agreement contains limited representations and warranties of Aquiline in respect of the Pico Machay Gold Project. In addition, the Acquisition Agreement contains certain customary representations and warranties of Aquiline in respect of Aquiline, Absolut and its subsidiaries, some of which are qualified by Aquiline's knowledge and some of which are limited in scope to the period extending from January 22, 2010 to the Acquisition Closing Date, and customary representations and warranties of the Company. Aquiline's representations and warranties do not survive the Acquisition Closing Date. All representations and warranties made by the Company survive the Acquisition Closing Date for a period of 24 months after the Acquisition Closing Date.

Covenants of Aquiline

Pursuant to the Acquisition Agreement, Aquiline has provided a number of covenants including covenants that prior to the Acquisition Closing Date, it will:

(a) not, and shall cause Absolut not to, take any action, directly or indirectly, to encourage, initiate or engage in discussions with any other party concerning sale, transfer or assignment of Absolut, or any portion of its business or assets;

(b) provide the Company a right of first offer to purchase or arrange for the purchase of the Common Shares if Aquiline wishes to dispose of all of the Common Shares it received from the Company pursuant to the Acquisition Agreement in one transaction at any time during the period from the Acquisition Closing Date up to and including the second anniversary of the Acquisition Closing Date;

(c) provide the Company a right of first refusal to purchase or arrange for the purchase of the Common Shares if Aquiline is approached by a third party with an offer to purchase all of the Common Shares it received from the Company pursuant to the Acquisition Agreement in one transaction at any time during the period from the Acquisition Closing Date to and including the second anniversary of the Acquisition Closing Date;

(d) pay and discharge any tax liability assessed to Aquiline by any Peruvian governmental authority in respect of Law No. 29663 of the Republic of Peru resulting from the transactions contemplated in the Acquisition Agreement; and

(e) continue to use its commercially reasonable efforts to obtain the required third-party consent (the "Consent") and to assign the Royalty (the "Royalty") to which Aquiline is entitled pursuant to the Acquisition Agreement for two years following the Acquisition Closing Date if Aquiline fails to obtain the Consent and to assign the Royalty to the Company prior to the closing of the Pico Machay Acquisition.

Company's Closing Conditions

The obligation of the Company to effect the Pico Machay Acquisition is subject to the satisfaction at or prior to the Acquisition Closing Time of a number of conditions including the following:

(a) the Company having completed an equity offering raising aggregate gross proceeds of not less than US$10.5 million; and

(b) the TSX having approved the terms of the Pico Machay Acquisition and having conditionally approved the listing thereon of the Common Shares issuable to Aquiline pursuant to or in connection with, the Pico Machay Acquisition, as of the Acquisition Closing Time, subject to compliance with the usual requirements of the TSX.

Liquidated Damages

In the event of any dispute in respect of the Acquisition Agreement, the Pico Machay Gold Project or them Royalty arising prior to the Acquisition Closing Date, the total aggregate damages that each party and its subsidiaries may claim against the other party, its subsidiaries and their respective officers and directors in any and all manner of action, cause of action, suit, proceeding, claim or demand whatsoever, in law or in equity, will be limited to such party's and its subsidiaries actual and documented out-of-pocket expenses incurred in connection with the negotiation of the Acquisition Agreement. Other than such expenses, Aquiline or the Company, as the case may be, is precluded from receiving any other remedy from the other party, its subsidiaries, its affiliates, or their respective directors or officers at law or in equity or otherwise (including, without limitation, an order for specific performance), and neither Aquiline nor the Company nor any of their respective subsidiaries may claim or otherwise seek to obtain any recovery, judgment, or damages of any kind, including consequential, indirect, or punitive damages, against the other party or any of its subsidiaries or any of their respective directors or officers in any way connection with the Acquisition Agreement.

Indemnification

The Company has agreed to indemnify and save harmless Aquiline from any and all losses suffered or incurred by Aquiline as a result of or arising directly or indirectly out of or in connection with:

(a) any inaccuracy of or any breach by the Company of, any representation or warranty of the Company contained in the Acquisition Agreement or in any contract, agreement, instrument, certificate or other document delivered pursuant to the Acquisition Agreement (except that the Company shall not be required to indemnify or save Aquiline harmless in respect of any inaccuracy or breach of any representation or warranty unless Aquiline shall have provided notice to the Company in certain circumstance(s); and

(b) any breach or non-performance by the Company of any covenant or other obligation to be performed by it that is contained in the Acquisition Agreement or in any contract, agreement, instrument, certificate or other document delivered pursuant to the Acquisition Agreement.

Release

The Company will release Pan American, Aquiline, Absolut, Pan American Silver (Peru (S.A.C.), Minera Calipuy, Pico Cayman and Pico Peru from all claims (including claims in fraud and new or novel claims in law or equity), proceedings, liabilities, obligations and costs which now or hereafter exist by reason of any events, acts or omissions prior to the termination of the Acquisition Agreement which are in any way connected with the Pico Machay Acquisition.

Termination

The Acquisition Agreement may be terminated by either the Company or Aquiline, and the Pico Machay Acquisition may be abandoned at any time prior to the Acquisition Closing Date, if: (i) any of the conditions precedent in the Acquisition Agreement are not satisfied by the dates specified for satisfaction if any, or waived; (ii) if either the Company or Aquiline breaches any of their respective representations, warranties, or covenants herein in any

material respect and such breach remains uncured; (iii) if Aquiline breaches certain exclusivity provisions contained in the Acquisition Agreement; or (iv) if the Acquisition Closing Date does not occur by August 31, 2011.

Summary of the Pico Machay Gold Project

The following summary of the Pico Machay Gold Project is summarized or extracted from the Technical Report and is based on assumptions, qualifications and procedures that are not fully disclosed herein. Reference should be made to the full text of the Technical Report available on SEDAR at www.sedar.com .

The Pico Machay Gold Project is a high-sulphidation gold deposit located in the eastern part of the Andean Cordillera in southern Peru within the Province of Huancavelica. The region surrounding the Pico Machay Gold Project in the eastern part of the Andean Cordillera has numerous mining operations including Gold Fields Ltd.'s and Compania de Minas Buenaventura's and Minera IRL Ltd.'s Corihuarmi Gold Project. The Pico Machay Gold Project lies within the northern extent of the Southern Peru Epithermal Gold-Silver Belt, which is one of three epithermal gold-silver belts in Peru that are host to gold deposits, including the producing Yanacocha and Pierina mines. The Pico Machay Gold Project consists of 15 mineral concessions covering 4,823 hectares. The Pico Machay Gold Project is a near-term mine development stage asset. Preliminary engineering and metallurgical test work supports a low cost, low stripping ratio, heap leach operation.

The Pico Machay Gold Project contains a Measured and Indicated Resource of 10.66 million tonnes grading 0.78 g/t gold for 270,000 ounces (0.30 g/t gold cut-off) (Measured 140,000 and Indicated 130,000) and a further Inferred Mineral Resource of 23.90 million tonnes grading 0.58 g/t gold for 450,000 ounces. The author of the Technical Report considers the choice of cut-off to be prudent.

Royalties

Mineral concessions Alcatraz 4 and Alcatraz 5 are subject to a 1995 production royalty agreement equal to two percent (2%) of net smelter returns from the sale or other disposition of precious and non-precious metal mined from the two concessions less certain expenses such as taxes on mining production, transportation, insurance, smelting and refining costs.

Property Description and Location

The Pico Machay Gold Project is located in southern Peru within the Province of Huancavelica, approximately 450 kilometres southeast of Lima and approximately 13 kilometres from the nearest town of Santa Ana. The Pico Machay Gold Project is geographically centred at approximately 13°02'S, 75°13'W (477900mE, 8560500mS – PSA56, Zone 18) and within the Peruvian National Topographic System map area of Castrovirreyna.

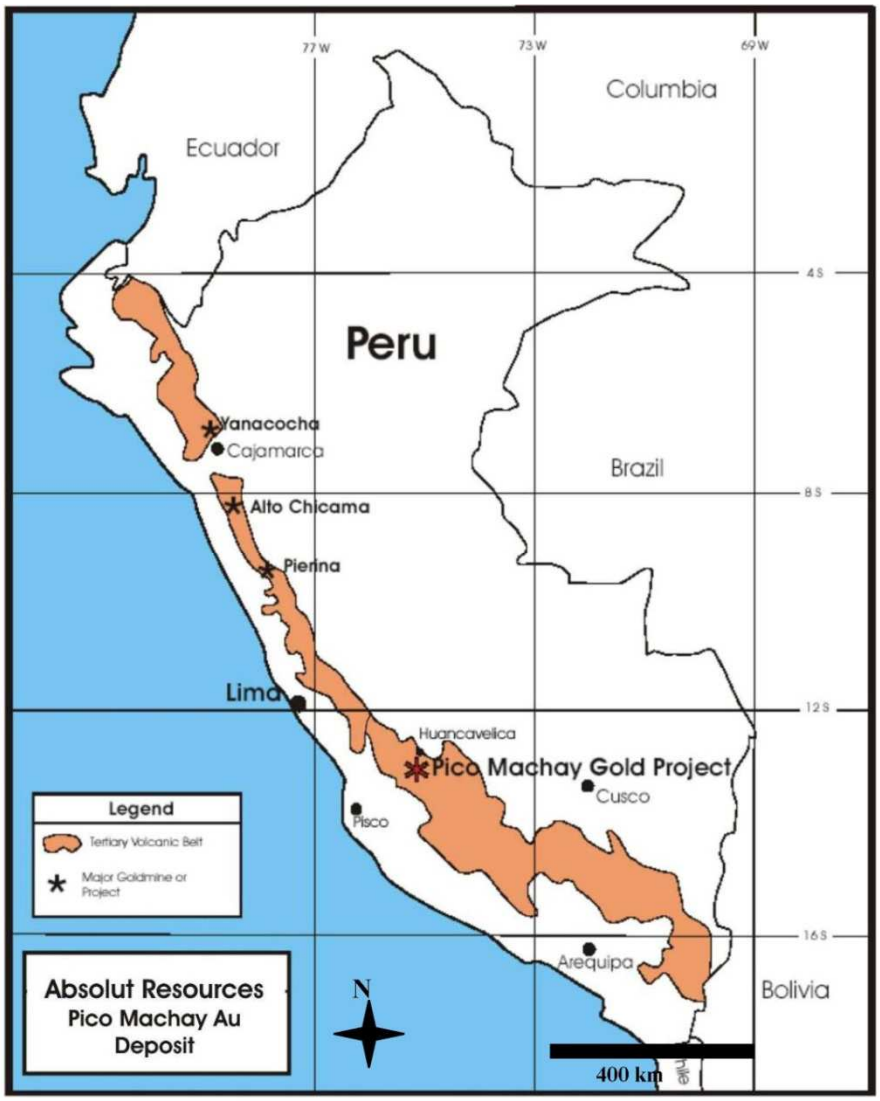

Figure 1. Location of the Pico Machay Gold Project in Huancavelica Province, Peru.

The Pico Machay Gold Project consists of fifteen concessions covering 4,822.9878 hectares which have been acquired at various times since 1994 (see Table 1 below). The most recent staking was in mid-2004, at which time four new concessions were added in order to infill the previous concessions and to cover areas of hydrothermal alteration that could provide further untested regions of gold mineralization. None of the mineral concessions have been surveyed.

Item	Claim Name	Code	Hectares	Title Holder	Date Acquired
1	El Alcatraz 4	01-01385-94	1,000.0000	1	18 March, 1994
2	El Alcatraz 5	01-01386-94	800.0000	1	18 March, 1994
3	IRI 219	01-01945-98	700.0000	1	16 October, 2003
4	IRI 221	01-01947-98	700.0000	1	5 February, 1999
5	IRI 238	01-00195-03	8.0000	2	17 October, 2003
6	IRI 239	01-00196-03	15.0000	2	29 January, 2003
7	IRI 240	01-00200-03	2.0000	2	17 October, 2003
8	IRI 241	01-00197-03	24.0000	2	17 October, 2003
9	IRI 242	01-00198-03	15.0000	2	17 October, 2003
10	IRI 243	01-00199-03	2.0000	2	20 October, 2003
11	IRI 244	01-00201-03	225.0000	2	20 October, 2003
12	IRI-245	01-02375-04	500.0000	3	5 July, 2004
13	Pico Chico Uno	01-02712-04	11.9876	3	11 August, 2004
14	Pico Chico Dos	01-02897-04	20.0002	3	8 September, 2004
15	Pico Chico Tres	01-03572-04	800.0000	3	15 November, 2004
		TOTAL:	**4,822.9878**		

1. Compañia Minera IRI Peru S.A.;
2.Minera Monterrico Peru S.A.C.;
3.Minera PicoMachay S.A.C.

Table 1. Concessions comprising Pico Machay. Although the Technical Report sets out the title holders above, such titles are now held by Pico Peru.

Property Ownership and Mineral Rights

Aquiline acquired an interest in the Pico Machay Gold Project following the amalgamation of Absolut Resources Corp. ("Absolut Corp.") and an Aquiline subsidiary on April 1, 2008 to form Absolut. Absolut Corp. had earlier earned a 75% interest in the Pico Machay Gold Project from Monterrico Metals PLC (a London Stock Exchange AIM company) ("Monterrico") by purchasing 100% of Minera Calipuy S.A.C. ("Calipuy") and meeting certain expenditures and drilling requirements. A letter of intent signed July 13, 2009 between Aquiline and Monterrico would have allowed Aquiline to acquire the remaining 25% interest in the Pico Machay Gold Project.

In October 2009, Pan American acquired the 75% interest in the Pico Machay Gold Project with the acquisition of all of the issued and outstanding shares of Aquiline and its subsidiary Absolut. Pan American acquired the remaining 25% interest in the Pico Machay Gold Project following a one-time payment to Monterrico of US$6.6 million.

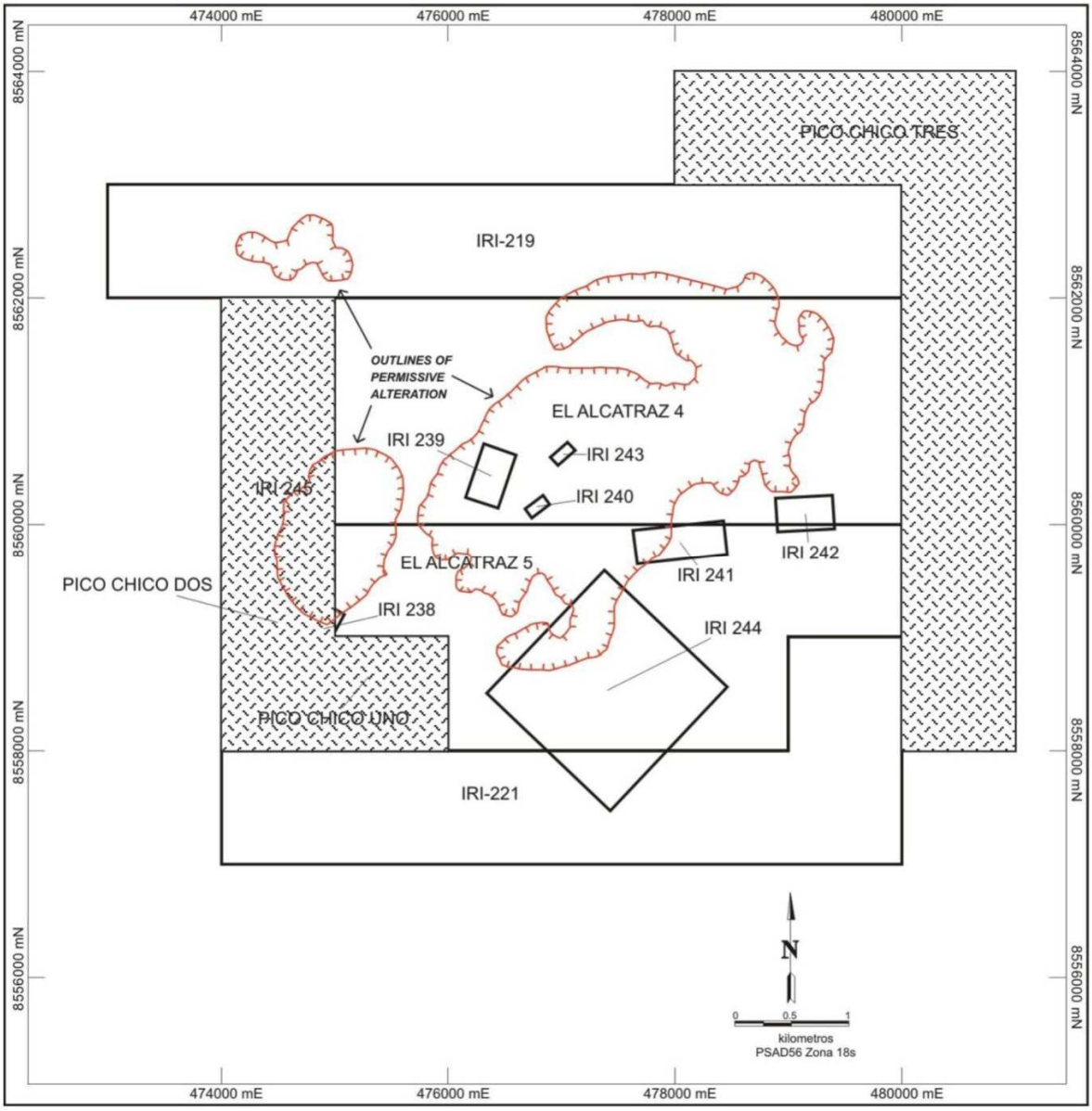

Figure 2. Tenement map showing mineral concessions for the Pico Machay Gold Project.

The principal target area of known gold mineralization is located within concession El Alcatraz 4 and is referred to as the main mineralized zone or "Main Zone". This area, located between 477500mE and 478350mE, forms the basis for the current Mineral Resource estimate.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Access

The Pico Machay Gold Project is accessible by paved and gravel roads northeast from the coastal city of Pisco, located about 225 kilometres south of Lima. The drive from Pisco to the Pico Machay Gold Project takes approximately 6 hours. Previous operators Newcrest Mining Australia built a 17 kilometre road from Santa Ana to access the main area of the Pico Machay Gold Project. Road access to the Pico Machay Gold Project is sometimes affected by heavy rains during the rainy season.

Physiography, Vegetation and Climate

The Pico Machay Gold Project is located between 4,100 and 5,100 metres above sea level and is situated in the eastern part of the Western Cordillera (Andean Cordillera) of Peru. The terrain over the Pico Machay Gold Project contains moderate to locally high relief. Slopes at lower elevations on the Pico Machay Gold Project are typically covered with small brush and grasses with the largest concentration of vegetation in swampy areas in the valleys.

Slopes at higher elevations are generally bare with very little vegetation and are predominantly covered by talus. There are grazing herds of Alpacas and Llamas on plateaus.

Within the region of the Pico Machay Gold Project, annual temperatures range from >25°C to <-20°C, with periods of extreme precipitation and extreme aridity. The rainy season is from December to April and dense fog is common during the rainy season. Snow covers many of the peaks year-round, which are in excess of 5,100 metres above sea level.

Infrastructure and Local Resources

The Pico Machay Gold Project is located 35 kilometres southwest of the town of Huancavelica where limited supplies and accommodations are available. Aquiline maintains a field office at the small village of Santa Ana which is located about 13 kilometres from the Pico Machay Gold Project.

Water is supplied to the community of Santa Ana by a spring uphill from the town where it is stored in a small cistern and chlorinated for public use. Water for reverse circulation/diamond drilling and other exploration activity is obtained, under permit, from the lower valley surrounding the higher topographic ridge in the central portion of the Pico Machay Gold Project.

Electricity to the area is provided by the national electrical power grid. Telephone and internet service in Santa Ana is provided by a rural satellite telephone-internet system installed at the exploration office by Minera Calipuy.

Property History

Exploration began on the Pico Machay Gold Project in the early 1990s by Intercontinental Resource Inc. and then by Newcrest Mining Australia followed by Gitennes Exploration Inc. ("Gitennes") and finally by Minera Calipuy.

Intercontinental Resources Inc. (1993-1995)

Initial work on the Pico Machay Gold Project was conducted in 1993 by Intercontinental Resources Inc., who acquired the Alcatraz 4 and 5 concessions to cover alteration anomalies identified on Landsat TM satellite images. In late 1995, Queenstake Resources acquired Intercontinental Resources Inc. and subsequently joint ventured the Pico Machay Gold Project to Newcrest Mining Australia and its subsidiary Minera Newcrest Peru S.A. ("Newcrest").

Newcrest Mining Australia (1997-1998)

Between 1997 and 1998, Newcrest delineated a 2.5 x 1 kilometre region of advanced argillic alteration enveloping a central target area defined by a 400 x 200 metre area of strong silicification. From August to October 1998, Newcrest completed a topographic Universal Transverse Mercator grid, 1:5,000 scale geological mapping, rock chip sampling (634 samples), soil/talus sampling (108 samples), and a limited (12 samples) stream sediment sampling program. Of the 634 rock chip samples collected, 131 returned better than 1 g/t Au and defined the Main Zone of strong silicification. The region immediately surrounding the Main Zone (Zone G) was referred to as Zone H and this region of advanced argillic alteration averaged 0.75 g/t Au from 17 samples. This surface sampling showed that areas of higher silicification are correlative with higher gold grades and that alunite–silica and silica-clay altered zones generally contain the lowest gold grades. On the basis of this sampling, Newcrest acquired mineral concessions IRI-219, IRI-220 and IRI-221 in 1997.

Alteration Type	No. Samples	Average Au (g/t)	Comments
silicification - intense	131	1.01	pervasive vuggy silica
silicification – strong vuggy silica	40	0.29	structural controlled silica alteration; local
silica – alunite veinlets	152	0.12	minor silicification; small grey silica
silica – clay feldspar altered to clay	86	0.35	structural controlled silica alteration;

Table 2. Summary of alteration types and sample results from Newcrest Mining Australia.

In 1998 Newcrest drilled eight reverse circulation holes (PMRC-01 to 08) totalling 1,848 metres focusing on, and only partially testing, the Main Zone of intense silicification. All of the RC drill holes were drilled on 180 azimuth and angled at 55 degrees, and a total of 1,229 samples of RC cuttings were taken at 1.5 metre intervals.

For the purposes of laboratory quality control, 80 duplicate samples were assayed for Au, Ag, Cu, Pb, Zn, Mo, As, Sb, Bi, and Hg and 77 sludges/fines were assayed for Au, Ag, Cu, Pb, Zn, Mo, As, Sb, and Bi; thirty-five blank samples were also submitted for laboratory quality control. Approximately 2 kg of representative chip samples were collected from each of the RC drill holes and sent to Lima to be stored at the offices of Queenstake Resources.

Drill Hole	Depth (m)	From (m)	To (m)	Interval (m)	Au (g/t)	Alteration
PMRC-01	222	22.5	70.5	48.0	0.89	intensive silicification
including	--	22.5	48.0	25.5	1.00	intensive silicification
including	--	52.5	63.0	10.5	1.16	intensive silicification
PMRC-02	210	42.0	48.0	6.0	0.35	strong silicification
PMRC-03	249	234.0	243.0	9.0	0.18	argillic
PMRC-04	246	60.0	63.0	3.0	0.39	silica-clay
PMRC-05	192	19.0	32.0	13.0	0.68	strong silicification
including	--	21.0	25.5	4.5	1.50	strong silicification
PMRC-06	210	24.0	51.0	27.0	0.85	silica-clay/argillic
including	--	37.5	48.0	10.5	1.45	argillic
PMRC-07	240	24.0	29.0	5.0	0.28	strong silicification
PMRC-08	279	52.5	60.0	7.5	1.05	alunite-silica/argillic
including	--	54.0	57.0	3.0	2.06	alunite-silica/argillic

Table 3. Selected results from Minera Newcrest Peru S.A. reverse circulation drilling.

In general, higher gold grades correlate well with areas of higher silicification and an alteration assemblage of silica, silica-clay or silica-alunite while lower gold grades are predominantly associated with argillic and/or alunite-silica alteration.

Gitennes Exploration (1999)

Gitennes acquired all the Peruvian assets of Newcrest including the Pico Machay Gold Project option but soon relinquished the option to Compañia Minera IRI Peru S.A and Monterrico then acquired Compañia Minera IRI Peru S.A., which was a Peruvian subsidiary of Queenstake Resources. Minera Calipuy subsequently optioned the Pico Machay Gold Project, adding concessions IRI-238 to IRI-244 in 2002.

J. Reeder (2003)

In 2003, Jeff Reeder (P.Geo.) ("Reeder") was retained by Minera Calipuy to complete an Independent Summary Report for the Pico Machay Gold Project. As part of the report Reeder collected 12 random samples from the Pico Machay Gold Project.

Sample	Au (ppb)	Ag (ppm)	Alteration Type
PICO-001	28	0.4	silica-clay
PICO-002	690	5.8	vuggy silica
PICO-003	149	1.1	silica-alunite
PICO-004	404	1.5	silica-alunite
PICO-005	1800	7.6	vuggy silica
PICO-006	1770	5.5	vuggy silica
PICO-007	1385	2.9	vuggy silica
PICO-008	1205	3.7	vuggy silica
PICO-009	12600	126	strong silicification
PICO-010	661	2.0	strong silicification
PICO-011	510	0.3	silica-clay
PICO-012	879	0.3	silica-alunite

Table 4. Assay results and alteration types as collected and described by Reeder.

Reeder showed that the alteration types all contain anomalous gold with the highest gold values being associated with intense silicification or vuggy silica type alteration. Five samples from the Main Zone showed vuggy silica type alteration and averaged 1370 ppb Au. Reeder noted strong secondary silica alteration along structures.

Aquiline / Minera Calipuy (2002-2009)

The Pico Machay Gold Project was optioned to Minera Calipuy from Compañia Minera IRI Peru S.A. and additional ground was staked by Minera Calipuy in 2002 and 2004. Aquiline is the Canadian parent company of Minera Calipuy, having acquired 100% of Minera Calipuy through the purchase of Absolut. Since 2002, Minera Calipuy has completed surface geochemical sampling (soil sampling, continuous chip and grab sampling from rock) and ground geophysical surveys including induced-polarization, resistivity and magnetometer. In late 2004, 1:10,000 scale outcrop mapping was completed over a large portion of the Pico Machay Gold Project.

Between 2002 and 2009 five drill campaigns (18,288 m in 145 drill holes) were completed on the Pico Machay Gold Project by Minera Calipuy primarily targeting the main mineralized area or Main Zone.

Most recently a detailed mapping program of the deposit in 2009 has led to the re-interpretation of the local geology and may have implications for future near-deposit exploration programs.

YEAR	EXPLORATION	DESCRIPTION
2004	soil sampling	107 Samples
2004	Rock Chip sampling	1197 Samples
2004	Phase I (May-June)	DDH 101-106
	Phase II (October)	DDH 107-125
2005	Phase III (April - June)	DDH 126-164
2005	Phase IV (October - November)	DDH 165-190
2007	Phase V (July - September)	DDH 191-246
2004	Mapping (Melnyk)	1:10,000 scale
2009	Mapping (Aquiline)	1:1000 scale
YEAR	**GEOPHYSICS**	**LINES**
2003	Quantec 2-D IP resistivity 47 line km	19 lines
2004	Quantec 2-D IP resistivity 21.2 line km	13 lines
2004	Quantec Magnetic 47 km	

Table 5. Summary of drilling and exploration by Minera Calipuy.

Pan American (2009-2011)

In October 2009, Pan American acquired 100% of Aquiline and its subsidiaries. Following the acquisition, Pan American completed metallurgical testwork for the Pico Machay Gold Project but no exploration or development work.

Geological Setting

Regional Geology

In Peru, northwest-trending, arc-parallel thrust faults constitute the dominant regional structures, defining the eastern edge of Tertiary volcano-sedimentary sequences with Cretaceous sedimentary rock sequences (northeast side) thrust over younger Tertiary sequences. Along the eastern side of the Pico Machay Gold Project, a northwest-trending megafault, herein referred to as the "KT Fault", separates rocks of the Incaic Fold and Thrust Belt to the east from rocks of the Coastal Block to the west. The Pico Machay Gold Project lies within the northern extent of the Southern Peru Epithermal Gold-Silver Belt which is one of several mineral belts occurring near the KT Fault, including the Yanacocha Epithermal Gold Belt, the Pierina Epithermal Gold Belt and the Southern Peru Epithermal Gold-Silver Belt.

The Pico Machay Gold Project lies within a north-northwest-south-southeast trending sequence of Tertiary (Eocene to Pliocene) volcanic and associated sedimentary rocks. Cretaceous sedimentary rocks of the Goyllarisquizga Group underlie the Tertiary rock sequences Regional geological map shows the region to exhibit broad north-northeast to northeast trending folds that were formed during Tertiary southwest-northeast directed compression.

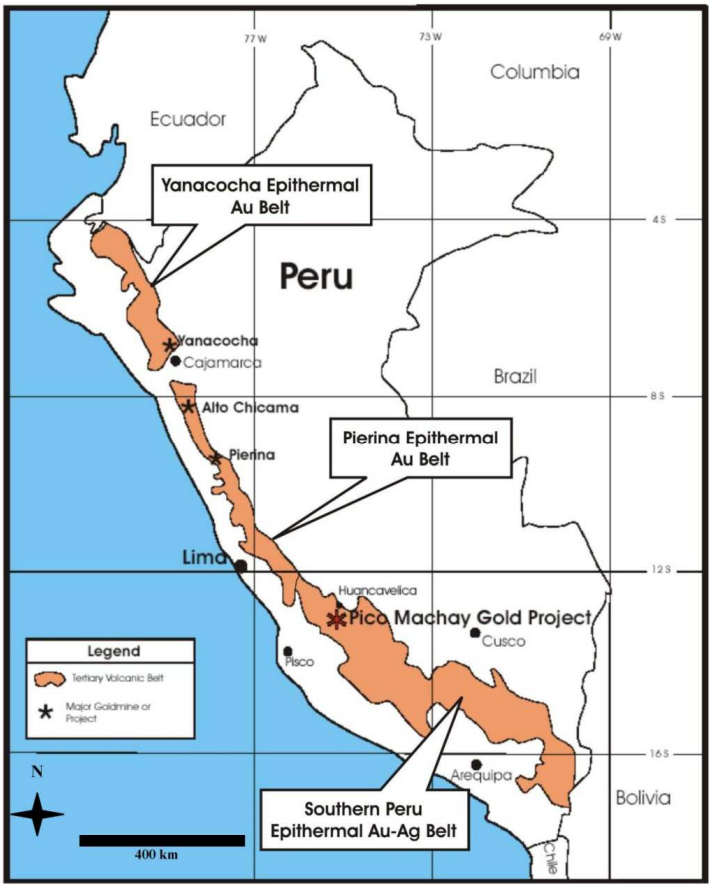

Figure 3. Main epithermal mineral belts in Peru.

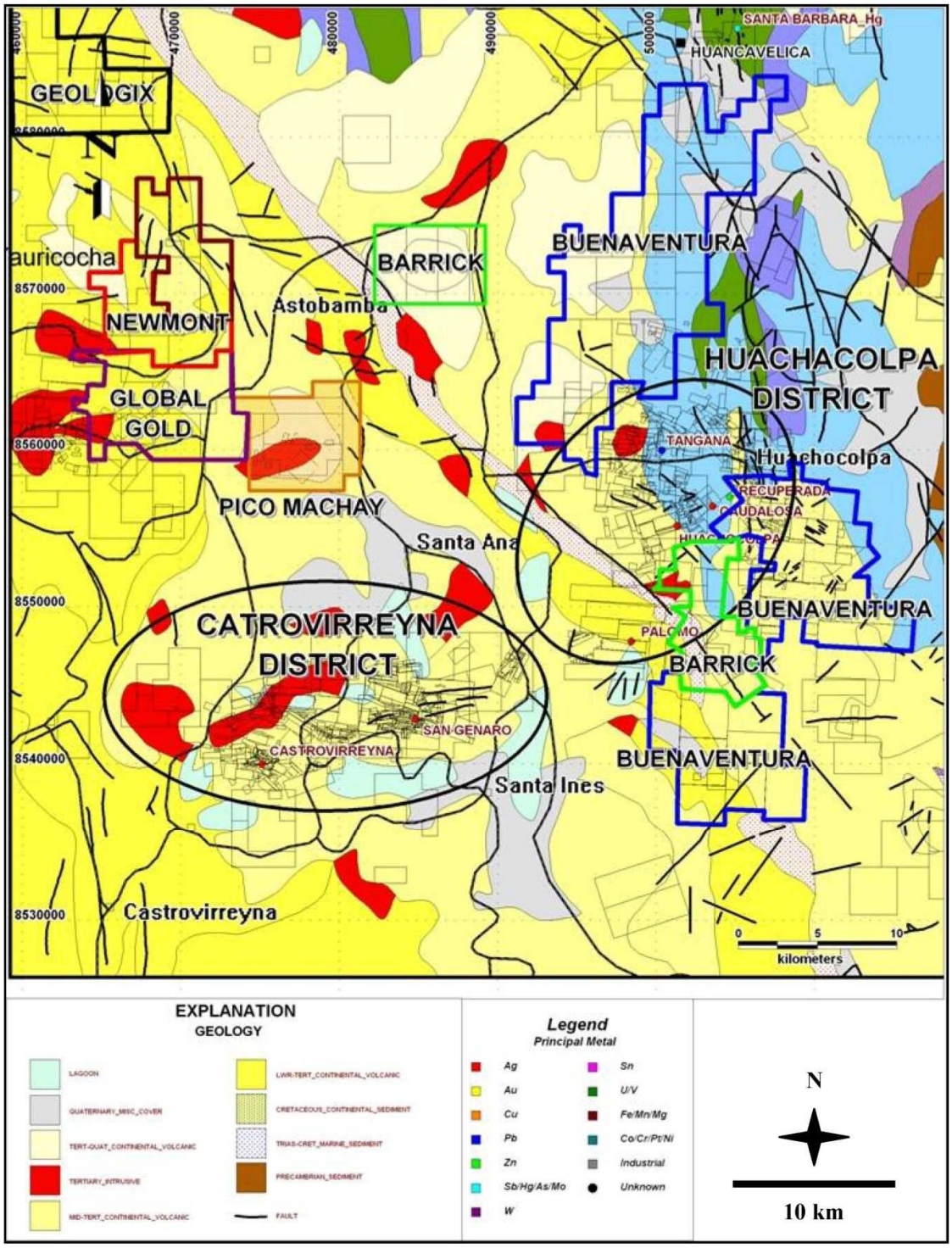

Figure 4. Regional geology, prospect locations and mineral concessions in the area surrounding the Pico Machay Gold Project.

Local Geology and Property Geology

The central portion of the Pico Machay Gold Project consists of a large fine-grained, hornblende-plagioclase phyric, andesite subvolcanic rock (i.e. the Pico Machay Stock ("PMS"), which is exposed over a surface area of approximately 10 square kilometres. The PMS intrudes sediments of the Auquivilca Formation that surround the central portion of the project area. The PMS may have formed from multiple pulses from the same parent magma.

The PMS is intruded by medium-grained, quartz-biotite-feldspar felsic porphyry. Within the central mapped area ten separate small dikes and stocks of this porphyry were mapped. The size of these intrusive bodies ranges from just a few meters to 225 m in length. Nine of the felsic porphyry stocks are located in the valley floor north of the Pico Machay central ridge and one just to the south of it. Outside of the central project area the felsic porphyry has also intruded the sediments of the Auquivilca Formation.

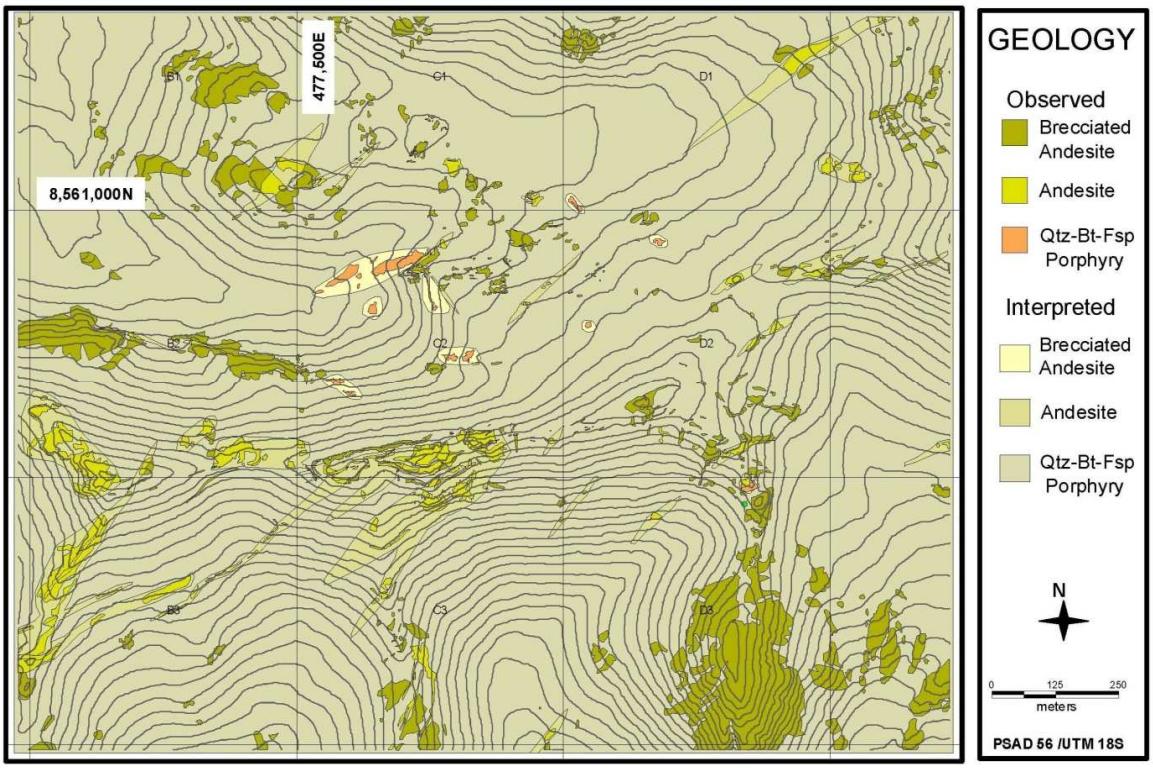

Figure 5. Detailed geology map of the Pico Machay Gold Project.

Detailed Lithologic Descriptions

Late-stage Intrusives

Late-stage dacite intrusives occur within the Pico Machay Gold Project area with the most significant, in terms of mineralization, lying close to the main mineralized zone or Main Zone on the north side of the ridge. This intrusive exhibits strong argillic alteration and is associated with the main mineralization along its southern contact as well as argillic alteration and silicification within the volcanic rocks, along its northern contact. Two other dacitic bodies occur northeast of this intrusive and are also associated with alteration in the host volcanic rocks, although to a lesser degree. These intrusives occur at a structurally lower level near the sediments and are themselves less altered than the primary body. The fourth dacitic intrusive is a very small, fresh plug, south of the main mineralized zone.

Auquivilca Formation

The Miocene Auquivilca Formation is a calcareous unit in conformable contact with overlying andesitic volcanic rocks of the Astobamba Formation. This unit varies widely in thickness and lithology across the Pico Machay Gold Project. In the eastern portion, it consists of well layered white to light grey, micritic limestone with interbedded chert

and shale, and is generally <100 metres thick. In the western area of the Pico Machay Gold Project, it is dominantly composed of thick sequences of calcareous, bluish-grey sandstone with minor micritic layers and lesser conglomeritic layers that can reach thicknesses well in excess of 100 metres.

Caudalosa Formation

The Miocene Caudalosa Formation consists of an upper ashfall unit comprising poorly consolidated ash that weathers to shades of white, rose, red and grey and often forming geomorphologic features such as hoodoos; this ashfall unit is only exposed in the eastern portion of the Pico Machay Gold Project. Underlying the ashfall unit is a well consolidated, coarse-grained welded tuff that forms prominent bluffs with a bold, columnar erosional pattern.

Castrovirreyna Formation

The Miocene Castrovirreyna Formation represents a period of enduring clastic deposition, consisting mainly of siltstone with subordinate shale and sandstone. Rocks of the Castrovirreyna Formation generally weather a light brown to beige colour and distinguishable from the bluish-grey weathering clastic unit of the Auquivilca Formation.

Clastic deposition of the Castrovirreyna Formation was interrupted by two distinct events. The first was the development of a small andesitic volcanic centre that erupted andesite flows onto a coherent unit of mixed, poorly bedded sediments which were likely shed as a result of local uplift associated with the volcanic centre. These sedimentary rocks and andesitic flows occur only in the southeastern portion of the Pico Machay Gold Project. The second event was the formation of a listric growth fault which is marked by an abrupt change in the composition of the upper Castrovirreyna Formation from well layered, brown weathering siltstone to massive, oxidized, shale and sandstone. The shale and sandstone rocks generally weather red with colour variations that include white, rose, and grey. The listric growth fault does not appear to have been reactivated during later regional deformation.

Sacsaquero Group

The Oligocene Sacsaquero Group consists of a thick sequence of sandstone, conglomerate, shale and volcaniclastic units. This unit contains green weathering beds that were deposited in reducing environments, as well as red weathering layers that were deposited in oxidizing environments. This is the lowermost unit exposed on the Pico Machay Gold Project where it crops out in anticlines along the eastern and western extents of the Pico Machay Gold Project. Reconnaissance mapping suggested that the Sacsaquero Group forms a prominent ridge and synclinal fold closure to the north of the detailed mapping area.

Structural Geology

The Pico Machay Gold Project lies within a broad, multi-kilometre scale, open, north-northwest trending synclinorium with a double, shallow, internal plunge. The synclinorium has affected all of the units from the Miocene Astobamba Formation through to the Oligocene Sacsaquero Group, with the possible exception of dacite intrusives. The centre of this doubly plunging synclinorium lies along the central axis to the south of the Pico Machay Gold Project, possibly in the vicinity of the secondary andesitic centres near the San Genaro deposit.

The recent mapping program identified structures striking NE-SW to E-W and dip to the north. The second most frequent structures have a similar strike with a southward dip. Subordinate structures strike NW-SE and dip to the NE and SW. The lack of stratigraphy complicates the interpretation of the relative degree and direction of movement on these structures. Exceptions to this are faults that affect the sediments and those post-mineral faults exhibiting well developed slickensides. One ENE-WSW striking, northerly dipping fault observed to the west of the study juxtaposes felsic porphyry against sediments in a manner consisted with a reverse sense of movement.

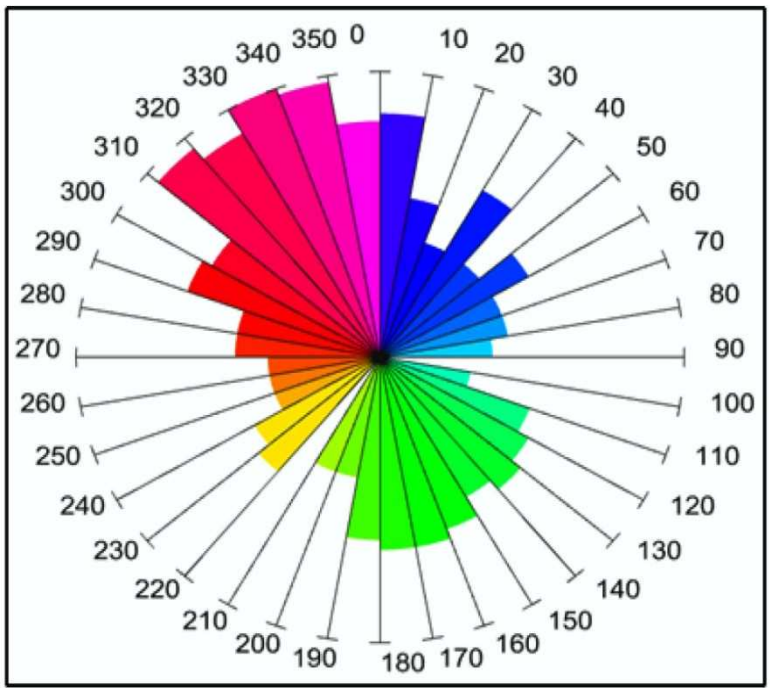

Figure 6. Rose diagram of dip directions for 280 measured faults.

Observations in fresh andesites east of the Main Zone show low angle fractures are not uniformly distributed. Flat structures are concentrated in relatively narrow zones where the fracture frequency increase from background values of less than one fracture per meter to over 20 per meter. The structural regime that generated the flat fractures continued from pre to post mineralization. Locally there are also low angle faults parallel to the fractures within zones of pervasive alteration. Also observed were low angle banded veinlets associated with low angle controlled zones of alteration.

Several of the structural orientations are associated with pervasive and large scale fragmentation of the PMS andesite. These brecciated zones range from clasts supported with angular clasts to matrix supported with rounded clasts. The size of the breccia bodies range to over 400 m in length and from a few meters to 150 m in width. The breccias occur as tabular bodies with either a sub-vertical or sub-horizontal dip orientations. The steeper dipping breccia zones trend northeast to east-northeast as can be observed in geology map that maps the brecciated andesite separately from the massive andesite. The shallow dipping bodies appear to form conjugate structural sets with dip directions ranging from the northwest to the northeast and from southwest to southeast.

Mineralization and Alteration

Mineralization Style and Control

The principal target area for potentially economic gold mineralization, referred to as the main mineralized zone or Main Zone, forms the basis for the current Mineral Resource estimate, and is located between drill hole ABS-145 (477500mE) and drill hole ABS- 147 (478350mE). This relatively low grade (=0.3 g/t Au), large tonnage region of gold mineralization is associated with disseminated sulphide that is variably oxidized (the "Oxide Zone") to non-oxidized (the "Sulphide Zone"), or a mixture of the two (the "Mixed Zone"). The mineralization is interpreted to be structurally controlled and is characterized by strong silicification and advanced argillic alteration; this structurally controlled mineralization appears to be the dominant style of mineralization. A second style of mineralization is that of high grade "bonanza veins" which are characteristic of epithermal style mineralization.

Three dominant factors that appear to control the location and intensity of mineralization within the Pico Machay Gold Project; original lithology and its inherent permeability and subsequent extent of alteration, structure, and association with dacitic intrusions. No one controlling factor is clearly dominant over another and therefore all should be considered as equally important.

Alteration

Specifically epithermal alteration on the Pico Machay Gold Project consists of residual silica or vuggy silica with oxidized pyrite resulting in limonite and jarosite coatings in vugs, advanced argillic alteration comprising quartz-alunite with variably oxidized pyrite, and argillic-illitic (propyllitic) alteration comprising illite-kaolinite-chlorite-quartz with minor oxidized pyrite.

The most intense alteration and many of the highest gold concentrations appear to be concentrated within the agglomeritic andesite. This is most likely a result of the primary properties of the agglomerate (i.e. high permeability) and its susceptibility to secondary structures (070°/80° fractures) as a result of deformation in contrast to the surrounding massive volcanic rocks. In addition, the agglomeritic andesite occupies the upper portions of the andesitic sequence, where much of the mineralization is focused along synformal structures.

At the Pico Machay Gold Project there are no different lithologies, only varying degrees of induced porosity through fracturing and brecciation of the host intrusive rocks. Zones with greater porosity support higher fluid flow, which resulted in stronger degrees of alteration. The cores of these fluid pathways became residual silica altered, which further increased their porosity. Nearly all of the zones of advanced and residual silica are coincident with zones of fragmentation of the host andesite or felsic porphyry.

Surface sampling and RC drilling (as hereinafter defined), which have tested these types of alteration, suggest that the highest gold grades are biased toward areas with increased silica enrichment (i.e. vuggy silica).

A common feature to all mineralized areas is their close association with argillic to advanced argillic alteration adjacent to silicified zones, resulting in alteration colour anomalies.

Alteration at the Pico Machay Gold Project exhibits typical zoned alteration patterns characteristic of high sulphidation systems. Based upon alteration mineral assemblages and textures the styles of alteration were divided into the following eight categories listed from weakest to most intense:

1. Propylitic
2. Weak Argillic
3. Strong Argillic
4. Intermediate Argillic
5. Advanced Argillic 1
6. Advanced Argillic 2
7. Residual Silica 1
8. Residual Silica 2

In addition to these categories, locally there appears to have been an early phyllic style of alteration, which has subsequently been over printed by the high sulphidation system.

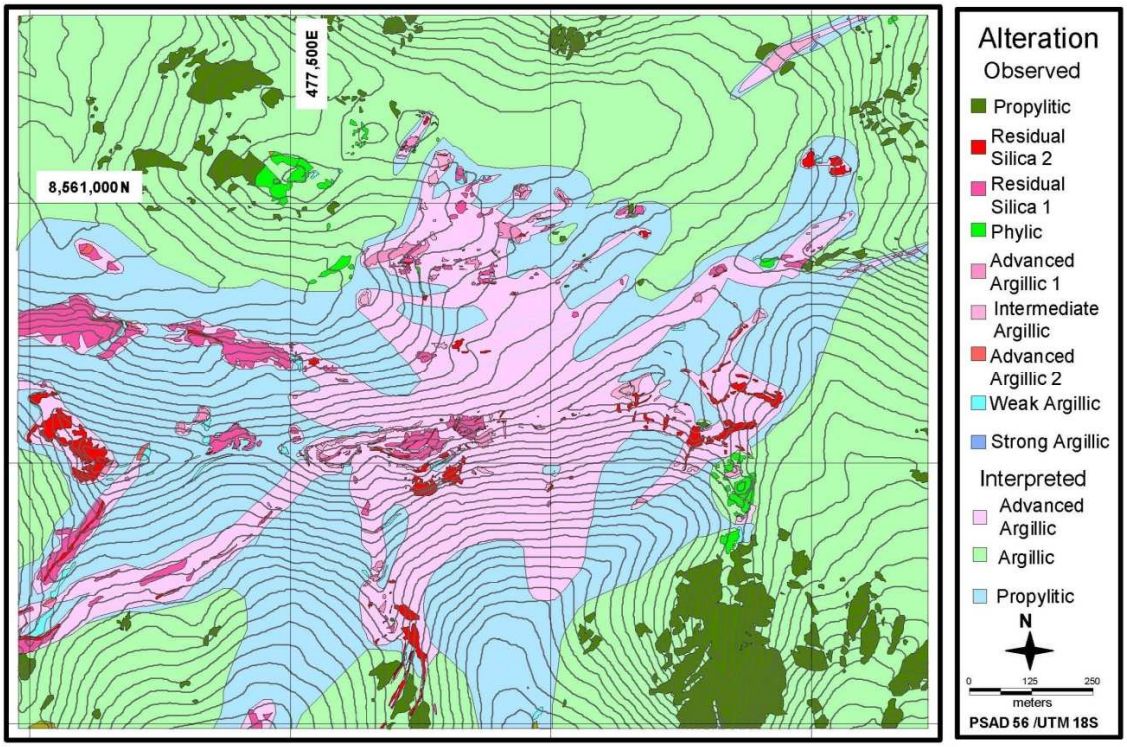

Figure 7. General geology for the Pico Machay Gold Project with zoned alteration shown.

Examples of the observed styles of alteration that are the basis for the alteration map are described below:

Propylitic Alteration

The Propylitic alteration zone is distal in a high sulphidation epithermal system. Mineral assemblages can include epidote, calcite, chlorite, albite, adularia, and actinolite. The most common of these minerals observed at the Pico Machay Gold Project were fracture filling by epidote and calcite. The general lack of alteration is characterized by dark color of these rocks and generally massive blocky bedrock exposures.

Quartz-Sericite-Pyrite

The Quartz-Sericite-Pyrite style of alteration predates the high sulphidation system and was over printed by the high-sulphidation system. It is included in the Aquiline mapping since it is distinctly different from the propylitic alteration. The pyrite is often cubic and sericite replaces the phenocrysts and groundmass. Where the phyllic alteration is over printed by high sulphidation styles of alteration the latter were mapped. Rocks with QSP alteration often form onion skin surface weathering with only the cores retaining fresh pyrite. Overall exposures of this alteration style often appear grey blue in color.

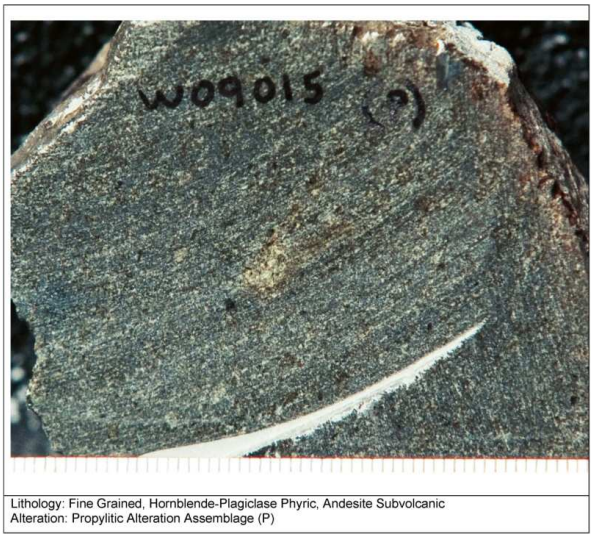

Photo 1. Propylitic Alteration Assemblage (P).

Photo 2. Quartz-Sericite-Pyrite (QSP).

Weak Argillic Alteration

At the Pico Machay Gold Project, argillically altered rocks are subdivided into "Weak" and "Strong" Argillic categories. The "Weak" Argillic category includes rocks with less than 80% argillic alteration assembly minerals, "Strong" Argillic category includes rocks with greater than 80% argillic alteration assembly minerals. Argillic minerals form at lower temperate and moderate pH. They include smectite, kaolinite, illite and layered illite-smectite. All these minerals appear white and amorphous without discernible crystal faces. The phenocrysts are usually the first to alter followed by the groundmass.

Strong Argillic Alteration

"Strong" Argillic alteration defined rocks with all phenocrysts and over 80% of the groundmass converted to an assemblage of argillic minerals. Despite the strong alteration the protolith can still be recognized by the size and quantity of the phenocrysts and trace Fe oxides usually retained in the sites of the hornblendes. "Strong" argillic rocks are erosionally recessive and virtually never make nature bedrock exposures.

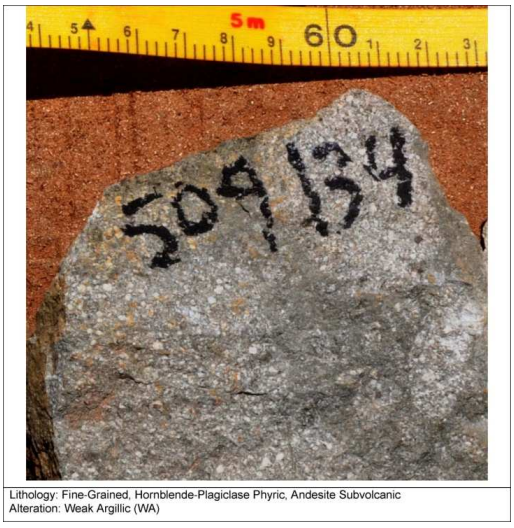

Photo 3. "Weak" Alteration (WA).

Photo 4. "Strong" Argillic Alteration (SA).

Intermediate Alteration (IA)

"Intermediate" argillic is defined as a strong argillic groundmass with advanced argillic minerals beginning to replace the phenocrysts. The usually mineral recognized is alunite, which occurs as fine-grained crystals.

Photo 5. "Intermediate" Argillic Alteration (IA).

Advanced Argillic Alteration (1)

The "Advanced" argilic alteration category is composed of a suit of advanced argillic minerals that may include: alunite, pyrophyllite, dickite, diaspore and quartz. This style of alteration is formed under lower pH conditions over a range of temperatures. At moderate to higher temperatures the clay mineral become more ordered and crystalline, which gives rise to a sericitic texture with discernible crystal faces that impart a sugary appearance on fresh broken surface in sun light. The hand sample is a fragmental andesite as can be seen by the variable texture between the clasts and the matrix where the clasts maintains the phyric texture but the matrix does not.

Advanced Argillic Alteration (2)

The "Advanced" argillic (2) category rocks are both advanced argillically altered and strongly silicified. The silicification is often texturally destructive and obliterates original rock textures including feldspar phenocrysts, but may retain some relic texture of the hornblende. Rocks with this type of alteration are erosionally resistive and usually form prominent exposures as exemplified along the central ridge at the Pico Machay Gold Project.

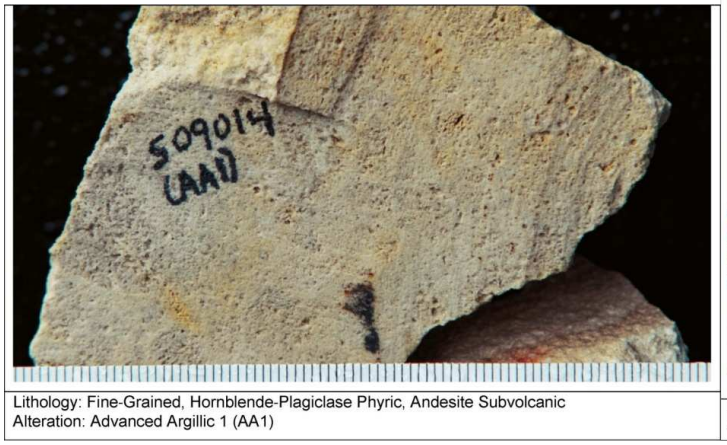

Photo 6. Advanced Argillic Alteration.

Photo 7. Advanced Argillic Alteration 2.

Residual Silica ("RS1")

Residual Silica is the preferred term at the Pico Machay Gold Project instead of "Vuggy Silica". This is because the protoliths are not always "vuggy" and not always silicified. Rocks in this category were affected by very hot, low pH fluids, which were able to leach nearly all elements from the rock except silica and rutile. This category is for rocks that have only been leached with discernible addition of silica. This produces a rock with low specific gravity and a "punky" appearance with a dull "thud" when hit with the hammer. This hand sample is from the fragmental portion of the PMS andesite. Individual clasts are visible due to their retained original textures formed by the leaching of the phenocrysts whilst the matrix exhibits a finer grained texture.

Residual Silica (2) ("RS2")

Rocks in this category are both leached and silicified. The silicification is less texturally destructive than in the AA2 example above. In RS2 altered rocks the original rock textures are often well preserved, which aids in the identification of the protolith. At the Pico Machay Gold Project, RS2 alteration is most frequently located along structures where it forms tabular zones of alteration that grade outward into advanced argillic. This style of alteration is formed along up flow zones at the core of the system, which have experienced the highest temperatures and lowest pH conditions. An indication of the post leaching silicification of the rock is the presences of fine grained quartz within the void spaces.

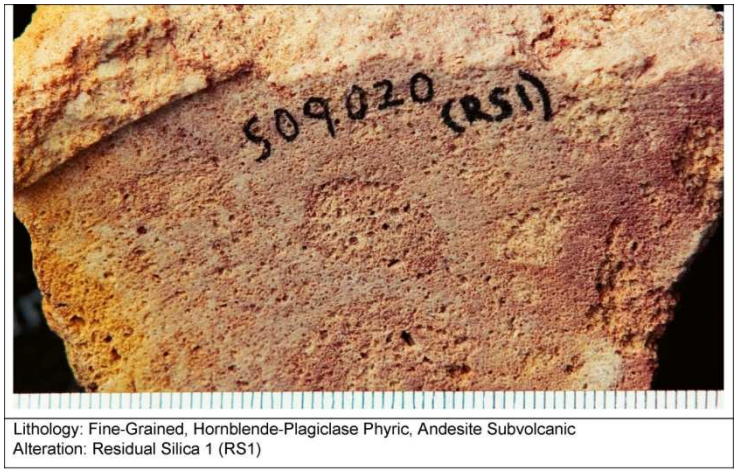

Photo 8. Residual Silica 1 (RS1).

Photo 9. Residual Silica 2 (RS2).

Felsic Porphry

This rock is composed of poikilitic biotite, rounded quartz eyes to 4 mm in size and stubby feldspar. The quartz eyes are the most distinguishing characteristics of this unit and which can still be observed regardless of the degree of alteration.

Photo 10. Propylitic Alteration Assemblage (P).

Deposit Types

General Model

The Pico Machay gold deposit is classified as a high sulphidation epithermal gold deposit as defined by its characteristic alteration and mineralization. High sulphidation gold deposits represent the major producers in the South American Andes (e.g., Yanacocha and Pierina, Peru; El Indio and La Coipa, Chile) and also represent significant undeveloped resources (e.g., Pascua-Lama-Veladero, Chile-Argentina).

Epithermal gold deposits, which may contain appreciable concentrations of Cu and/or Ag, form at shallower crustal levels than porphyry Cu-Au systems. Epithermal deposits are classified as either low sulphidation or high sulphidation, and this distinction is primarily made using criteria of varying gangue and ore mineralogy (Figures 8 and 9). Low sulphidation deposits are further divided according to mineralogy related to the depth and environment of formation whereas high sulphidation systems vary with depth and permeability control, and are distinguished from several styles of barren acid alteration.

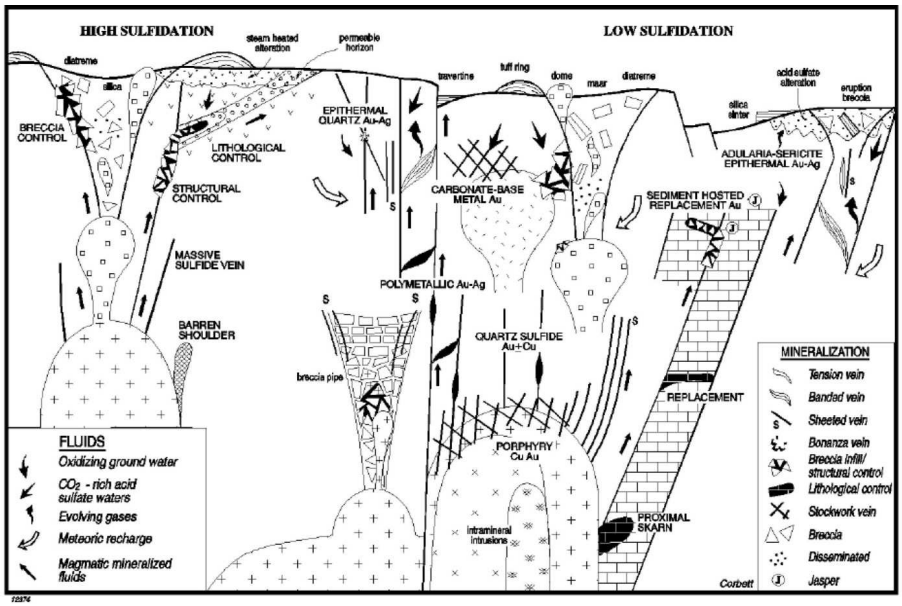

Figure 8. Schematic model for styles of magmatic arc epithermal Au-Ag and porphyry Au-Cu mineralization.

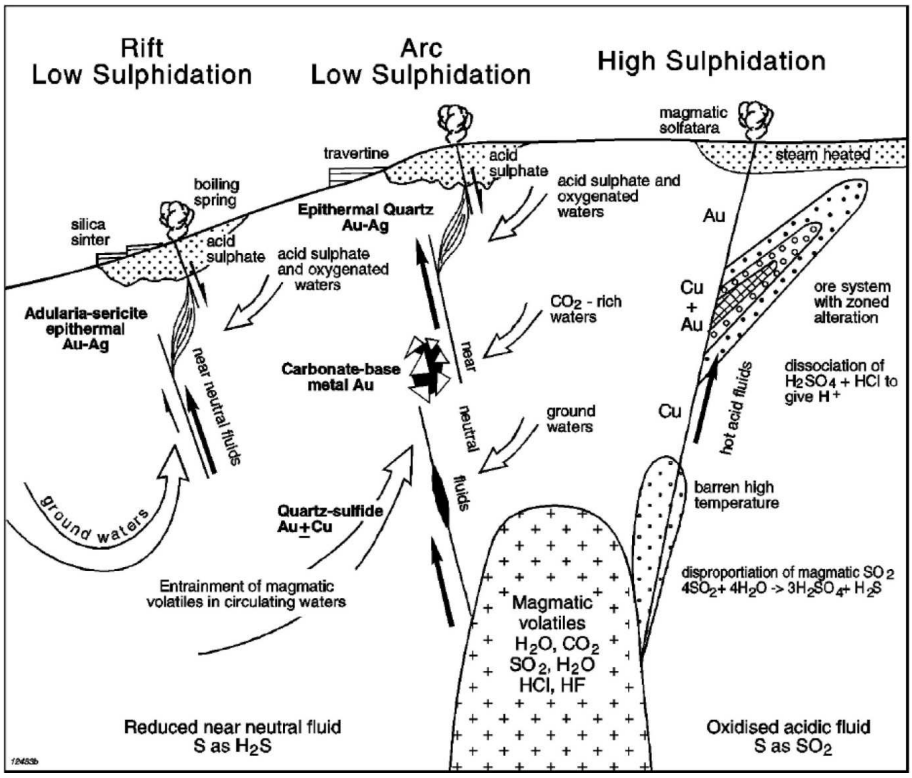

Figure 9. Schematic model showing the derivation of low and high sulphidation fluids in epithermal systems.

Earlier geological literature would have assigned the term acid sulphate to the Pico Machay gold deposit, a term which is now reserved for alteration formed by the reaction with host rocks of collapsing cool surficial acidic waters, typically within low sulphidation systems. Epithermal deposits are found in a variety of geological environments with specific types of epithermal deposits being dependent on various combinations of igneous, tectonic and structural settings. Most epithermal districts world-wide occur in younger Tertiary Period volcanic rocks that, on a continental scale, are associated with subduction zones at plate boundaries. Older epithermal deposits are less common because many have been destroyed by erosion and/or overprinted by metamorphism.

High Sulphidation Systems

High sulphidation gold (± Cu, Ag) ore systems develop from the reaction of hot acidic magmatic fluids with host rocks to produce characteristic zoned alteration and subsequent sulphide associated Au ± Cu ± Ag deposition. The magmatic fluids, enriched in magmatic volatiles and migrating from intrusion source rocks at depth, interact at epithermal crustal levels with limited dilution by groundwaters or interaction with host rocks. As the rapidly rising fluid becomes depressurised, magmatic volatiles (i.e. SO^2 ± HCl, CO^2, HF) come out of solution and react with water and oxygen to produce increasing concentrations of H^2SO^4. Under low temperature (<300°C) conditions, dissociation produces hot acidic fluids and characteristically zoned high sulphidation alteration is derived from the progressive cooling and neutralization of the hot acidic fluid by interaction the with host rocks.

Many high sulphidation ore systems display permeability controls that are related to lithology, structure and breccias, and are characterized by changes in wall rock alteration and ore mineralogy with depth of formation. Structural control commonly extends from major structural corridors which localize the ore system to dilatant ore-hosting fractures at outcrop scale. Major dilatant structures or phreatomagmatic breccia pipes commonly provide conduits for rapid fluid ascent and introduction of hot acidic fluids into the epithermal crustal levels. In many instances structural controls predominate in the deeper portions where dilatant subsidiary structures with angular relationships to major structural corridors host ore and facilitate rock reaction. In shallower portions, lithological control predominates and is facilitated by permeable host rocks which may increase and control principal paths of fluid flow. In general however, both structural and lithological controls are integral to producing well mineralized

high sulphidation deposits and in many instances mineralisation occurs at the intersection of structures and lithology.

High sulphidation systems are characterised by zoned alteration patterns formed as a result of the progressive cooling and neutralization of the hot acidic fluids by reaction with host rocks and groundwaters. Zoned alteration is overprinted by the deposition of sulphide ore and additional gangue minerals which is accounted for in the two phase fluid flow model, in which alteration results from initial interaction of the more rapidly migrating volatile rich-component of the high sulphidation fluid, followed by a liquid-rich component that deposits sulphide and Au-Ag-Cu mineralization. At the core of a high sulphidation system, hot acidic fluids leach many components from the host rocks leaving mainly silica and some rutile, and resulting in the characteristic vuggy silica texture produced by the pseudomorphic removal of porphyritic feldspars and rock fragments. In many breccias finely comminuted rock material is replaced by massive fine-grained silica, while porphyritic intrusion fragments display vuggy textures, the latter providing essential secondary permeability for later mineralization. Progressive neutralization and cooling of the acidic fluids by rock reaction produces an alteration pattern that, moving outward from the core, is characterised by mineral assemblages dominated by alunite, pyrophyllite, kaolin, illite, and chloritic clays. Although many deposits display similar zonation patterns, variations can be mainly attributed to crustal level of formation; a salient relationship to note with respect to mineral exploration and deposit modelling. Of particular note are the vertical metal zonations which are typified by higher copper contents at deeper levels and greater abundances of Au or Au-Ag along with local Hg, tellurium and antimony, in the upper portions of poorly eroded systems, or at the margins.

Most high sulphidation systems have been targeted through the recognition of outcropping alteration, commonly as Landsat TM image colour anomalies, and the Pico Machay Gold Project is no exception. However, not all high sulphidation systems contain gold mineralization and many can be barren or noneconomic acidic alteration systems that include lithocaps or barren shoulders, steam heated, magmatic solfatara (volcanic vent related) and acid sulphate alteration. Field mapping of alteration mineralogies and alteration zones is critical in distinguishing mineralized regions and the recognition of rock textures such as vuggy silica allows exploration programs to focus in core areas of high sulphidation systems. Systematic surface sampling is also an important procedure as geochemical results may vector towards higher grade ores.

Low Sulphidation Systems

Low sulphidation epithermal Au (Cu, Ag) deposits develop from dilute, near neutral pH fluids and are divided into two groups: those which display mineralogies derived dominantly from magmatic source rocks and referred to as "arc low sulphidation", and others with mineralogies dominated from circulating geothermal fluid sources and referred to as "rift low sulphidation". Arc low sulphidation types are further classed with decreasing crustal level as quartz-sulphide Au + Cu, passing to Polymetallic Au-Ag veins, carbonate-base metal and gold, and the shallowest epithermal quartz Au-Ag. These ore types are zoned in time and space with shallower styles overprinting the deeper, and metal contents which vary as high Cu at depth, to Ag and Au dominant in elevated crustal settings. Rift low sulphidation adulariasericite epithermal Au-Ag systems are dominated by gangue mineralogies deposited from meteoric water rich circulating geothermal fluids, and typically form in rift settings. More recent literature refers to the deeper base-metal rich deposits as intermediate sulfidation deposits.

Pico Machay Interpreted Deposit Model

The Pico Machay system was emplaced as a large subvolcanic andesite stock into the sediments of the Auquivilca Fm. Both the sediments and the PMS were then intruded by felsic quartz-biotite-feldspar porphyry which is believed to be related to the alteration and Au mineralization. Prior to the development of the high sulphidation epithermal system the PMS underwent tectonic deformation resulting in its faulting, fracturing and brecciation. The deformation is believed to be related a compressional tectonic regime manifesting in a series of ENE-WSW trending high-angle reverse faults and a series of low-angle link structures between adjacent structures. Both the high and low angle structures are characterized by zones of increased fracture density and the development of tabular breccia bodies. The structural deformation provided essential ground preparation by greatly increasing the porosity of the PMS along an interconnecting framework of sub-vertical and sub-horizontal zones, which were utilized by the subsequent hydrothermal system.

Magmatic fluids exsolving off of the felsic porphyry following the latest models for high sulphidation systems are postulated to have partitioned into a low density vapor and a hypersaline liquid. The vapor phase with its greater mobility ascends first to lower crustal levels where it begins to cool and be absorbed into meteoric waters. The contained SO^2 disproportionates to H^2S and H^2SO^4 at approximately 400°C then disassociates to HC1 as it continues to cool. This produces a hot acidic fluid, which is preferentially channeled upward along zones of greatest porosity. At Pico Machay these zones consist of the tabular breccia bodes developed along the high-angle reverse faults and the fractured and brecciated subhorizontal link structures. Observed low-angle banded veinlets within the link structures indicate that they were dilatational syn-mineralization. The hot acidic hydrothermal fluids react with the host rocks.

The hot acidic hydrothermal fluids react with the host rocks. This results in the formation of a zoned pattern of alteration. The up-flow zones at the core of the system are the most altered as denoted by residual silica textures. The fluid becomes progressively cooled and pH neutralized away from the core zones as reflected by formation of the characteristic zoned pattern of alteration grading through advanced argillic, intermediate argillic, argillic and finally to peripheral propylitic. The second pulse of hypersaline magmatic fluids is generally believed to transport the majority of precious and base metal mineralization into the system. As these fluids ascend along the same plumping system as the earlier gas-rich phase they are funneled into the residual silica leach and highly porous core of the system. Here the metal-laden fluids begin to cool and mix with ground water or circulating hydrothermal fluids triggering the precipitation of their metal content, which overprints the existing alteration. The mineralization is generally zoned with Cu at depth and Au-Ag higher in the system. The top of the system often contains toxics such as Hg, As and Sb with no precious metals.

In typical high sulphidation systems the hot silica-rich hydrothermal fluids ascend to hydrostatic level and are quenched by the cold ground water forming the paleo water table. This results in the rapid precipitation of silica that often results in the formation of a massive horizon of pervasive silicification. Boiling at the paleo water table release gases that travel into the vadose zone where they condense with pore water to produce acidic fluids. These fluids leach the host rocks to produce an alteration style composed of low temperature silica and alunite referred to as “steam heated”. Neither the steam heated nor massive silica horizons are recognized in the central mapped portion of Pico Machay. If these zones existed, they were removed by erosion, which is consistent with the exposure of residual silica and Au mineralization at the present day surface.

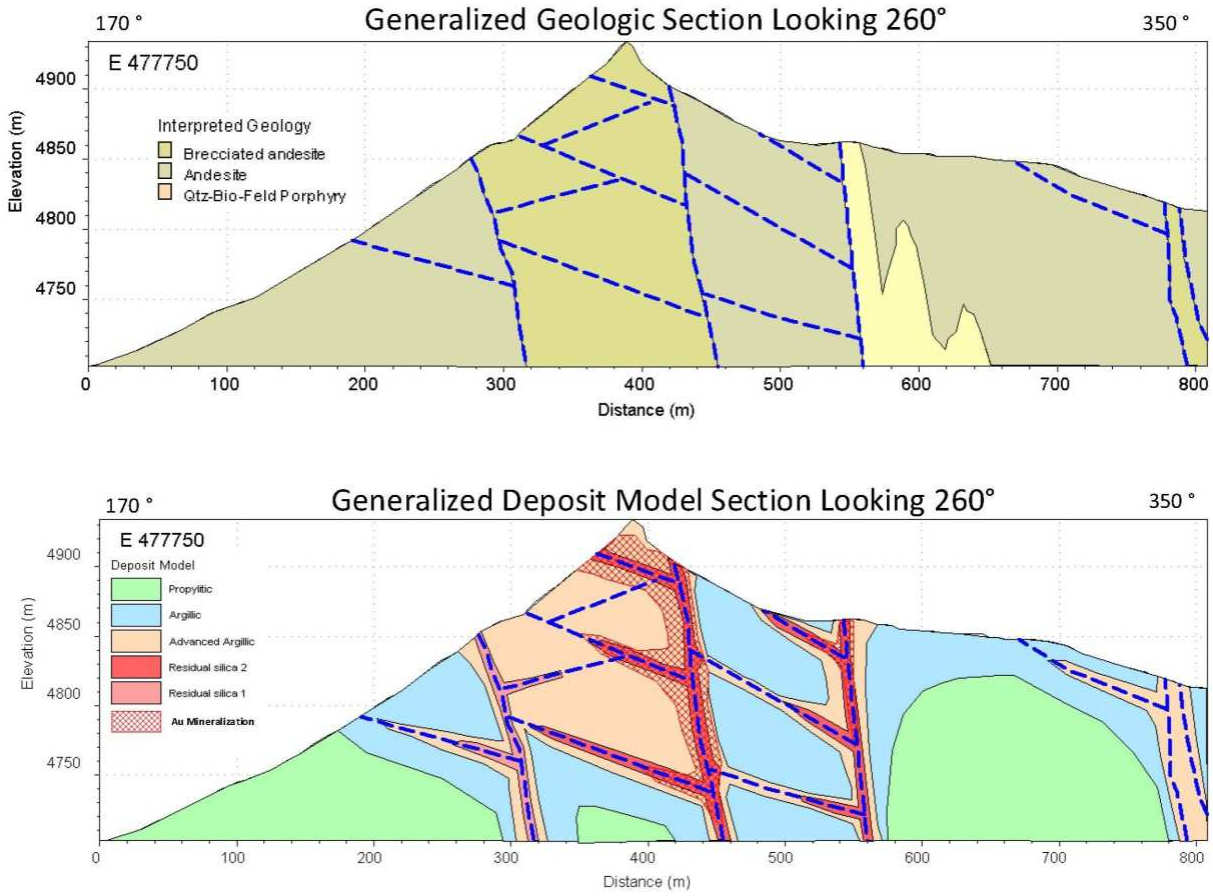

Figure 10. Schematic 2-D cross-section of Pico Machay based on drilling and geologic mapping.

Exploration

Minera Calipuy has been actively exploring the Pico Machay Gold Project since acquiring the concessions in 2002. In 2004 additional concessions were added to the Pico Machay Gold Project.

Surface Sampling

Minera Calipuy began exploration of the Pico Machay Gold Project following positive results from previous title holders. The first exploration activity consisted of a systematic geochemical sampling program where 1,197 rock chip samples and 107 soil samples were collected and analyzed. Based on the rock chip samples, several areas of anomalous gold mineralization were identified. Soil samples were collected in the region immediately north of the main mineralized zone in order to test areas with sparse outcrop. Anomalous gold in soils identified an area that approximately corresponds with the contact between andesitic volcanic rocks and a dioritic intrusive.

Sample No.	Length (m)	Au (ppb)	Ag (ppm)	Description
100 to 109	50	2115	6.15	west end of Main Zone near ABS-106
797 to 802	30	3583	3.58	Main Zone road cut near ABS-106
895 to 904	50	1667	5.87	Main Zone road cut near ABS-140

Table 6. Summary of continuous rock chip sample assays collected by Minera Calipuy.

These sampling programs formed the basis of targeting for the subsequent RC drilling programs.

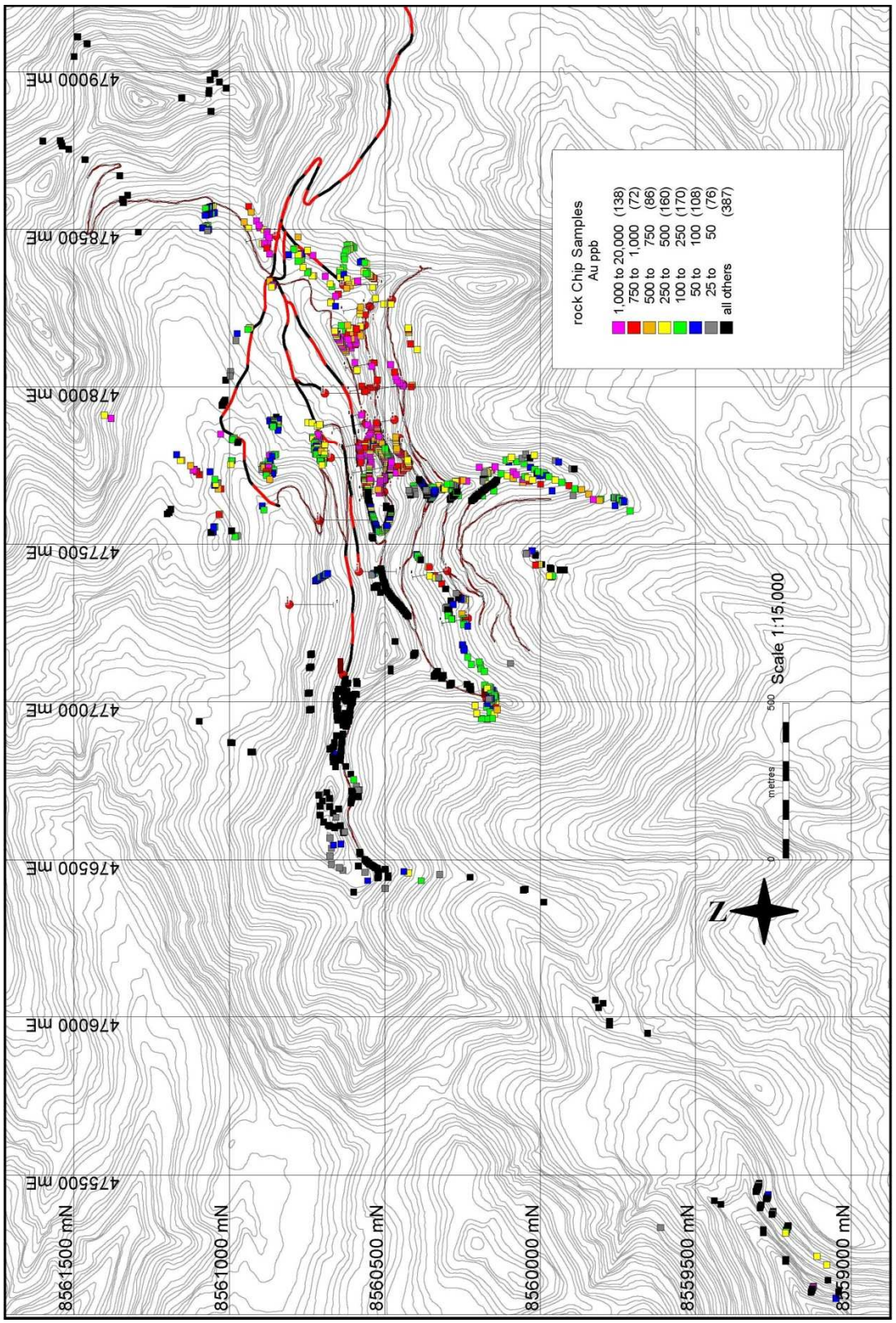

Figure 11. Locations and gold assay results of continuous rock chip samples, over the central portion, the Pico Machay Gold Project.

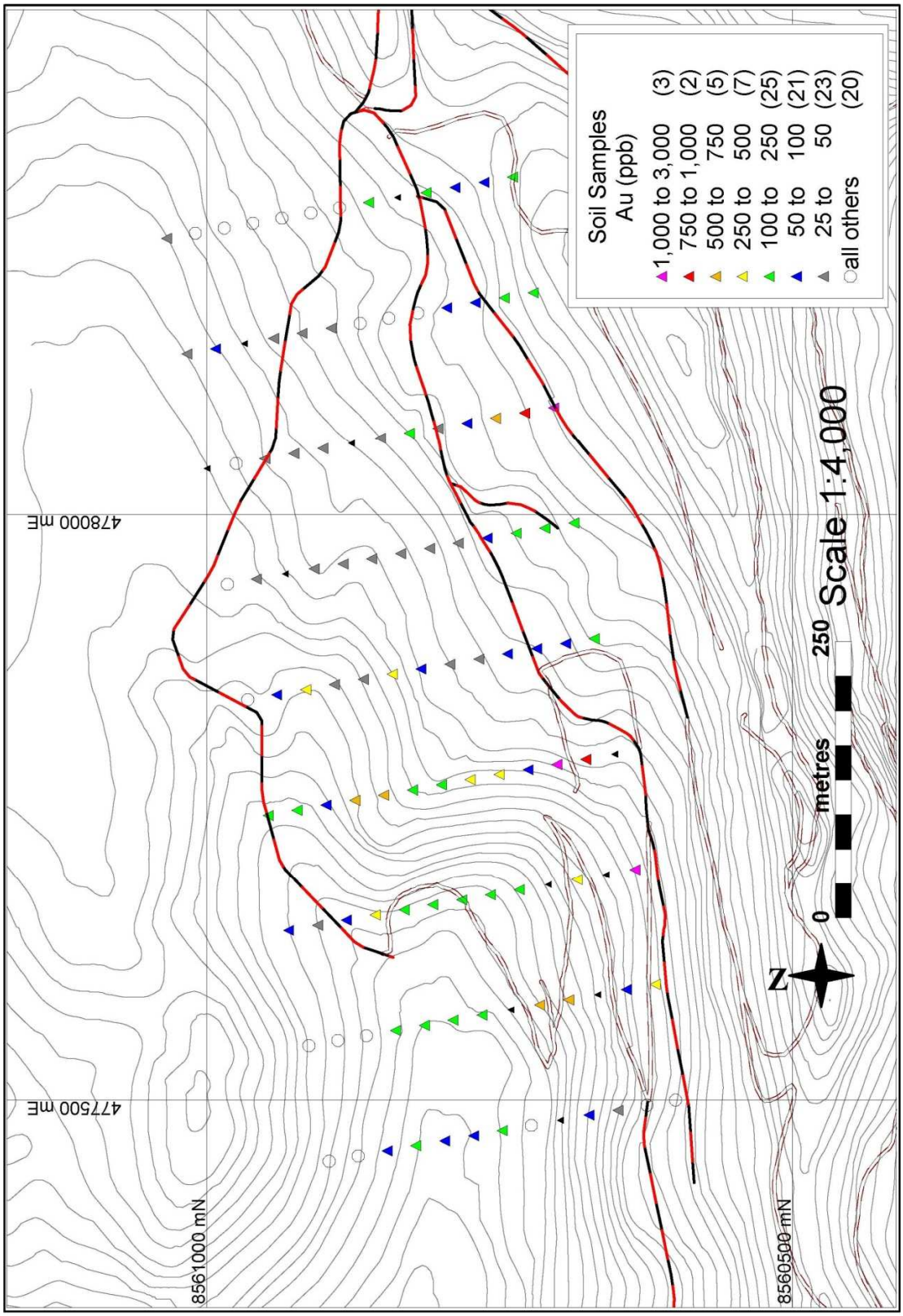

Figure 12. Locations and gold assay results of surface soil samples, central portion of the Pico Machay Gold Project.

Geophysical Surveys

In 2003 and 2004, Quantec Geoscience Peru S.A.C. ("Quantec") conducted ground geophysical surveys over the Pico Machay Gold Project under contract to Minera Calipuy. The first surveys were completed in November 2003 and consisted of 47 kilometres of pole-dipole array induced polarization and resistivity, along nineteen lines (L476000E through L479600E) at 200 metre line spacing and with a dipole spacing of 100 metres expanded through six separations (n=1 to 6). In addition, Quantec completed 2-D induced polarization and resistivity inversions using the University of British Columbia Geophysical Inversion Facility's DCIP2D software on the nineteen lines. The 2D inversions were completed on all lines (476000E to 479600E) and on elevation slices from 5,000 metres down to 4,300 metres.

In September 2004 a follow-up survey was completed to infill the main area of mineralization and to extend the geophysical coverage toward the west. The second survey consisted of a total of 21.2 kilometres in thirteen lines were completed with four lines at 200 metre spacing to the west and nine lines as infill to the earlier 200 metre-spaced survey. In addition, a 47 kilometre magnetometer survey was completed with 10 metre station spacing and 200 metre line spacing. The geophysical surveys were aimed at identifying chargeability and resistivity trends indicative of epithermal gold mineralization, which in Quantec's experience are characterized by strong resistivity contrasts with high resistivity zones being indicative of intense silicification; narrow silicified veins are generally lower in resistivity than the massive silica caps. Zones of lower resistivity are often associated with one or more of the following: clay or argillic alteration, fault zones, high sulphide content, conductive overburden and in some cases propylitic alteration.

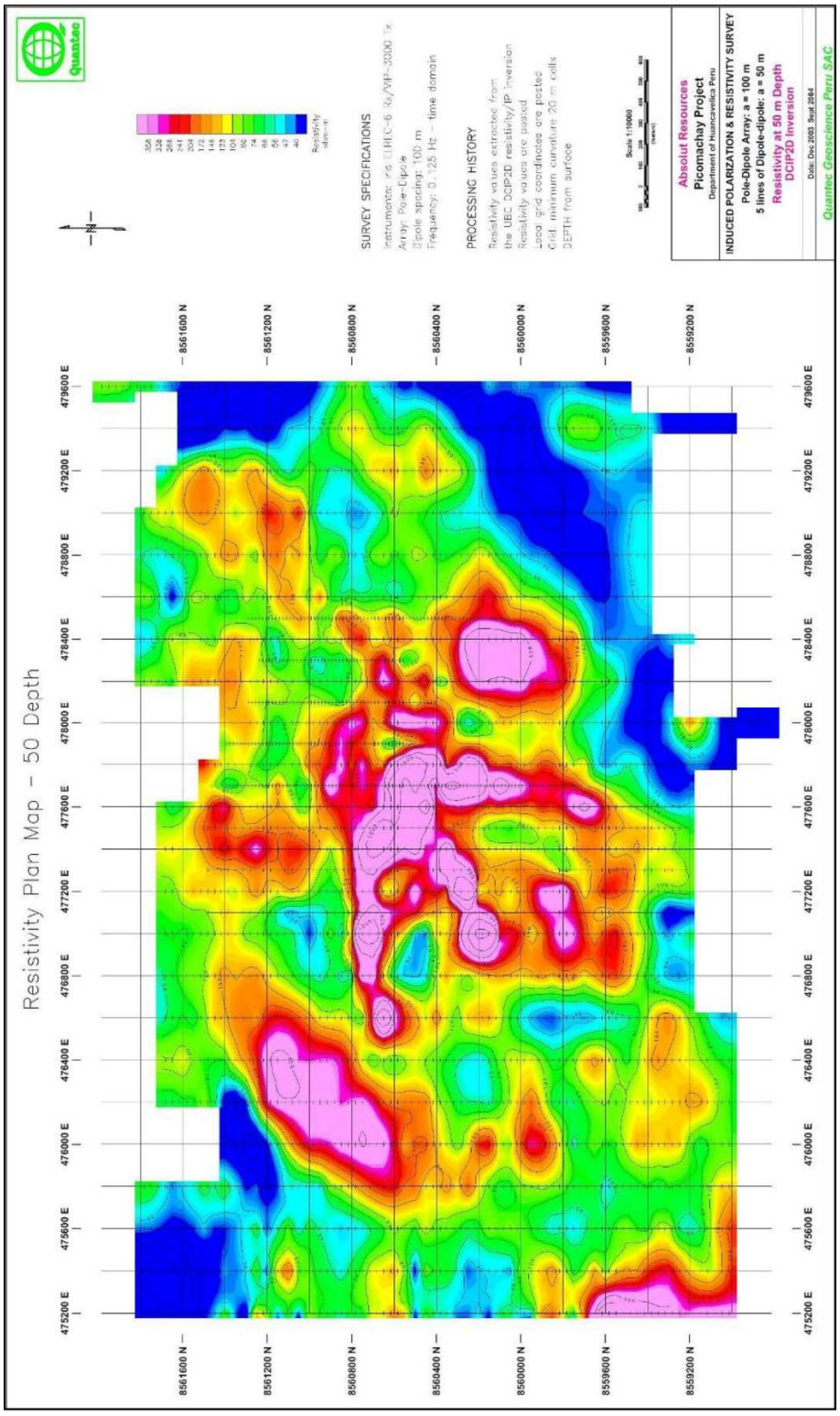

Figure 13. Surface resistivity survey outlining resistive body identified through IP geophysical survey.

The geophysical surveys revealed an approximately 1400 x 150 metre resistive body which was targeted by Absolut during two phases of reverse circulation drilling in 2004.

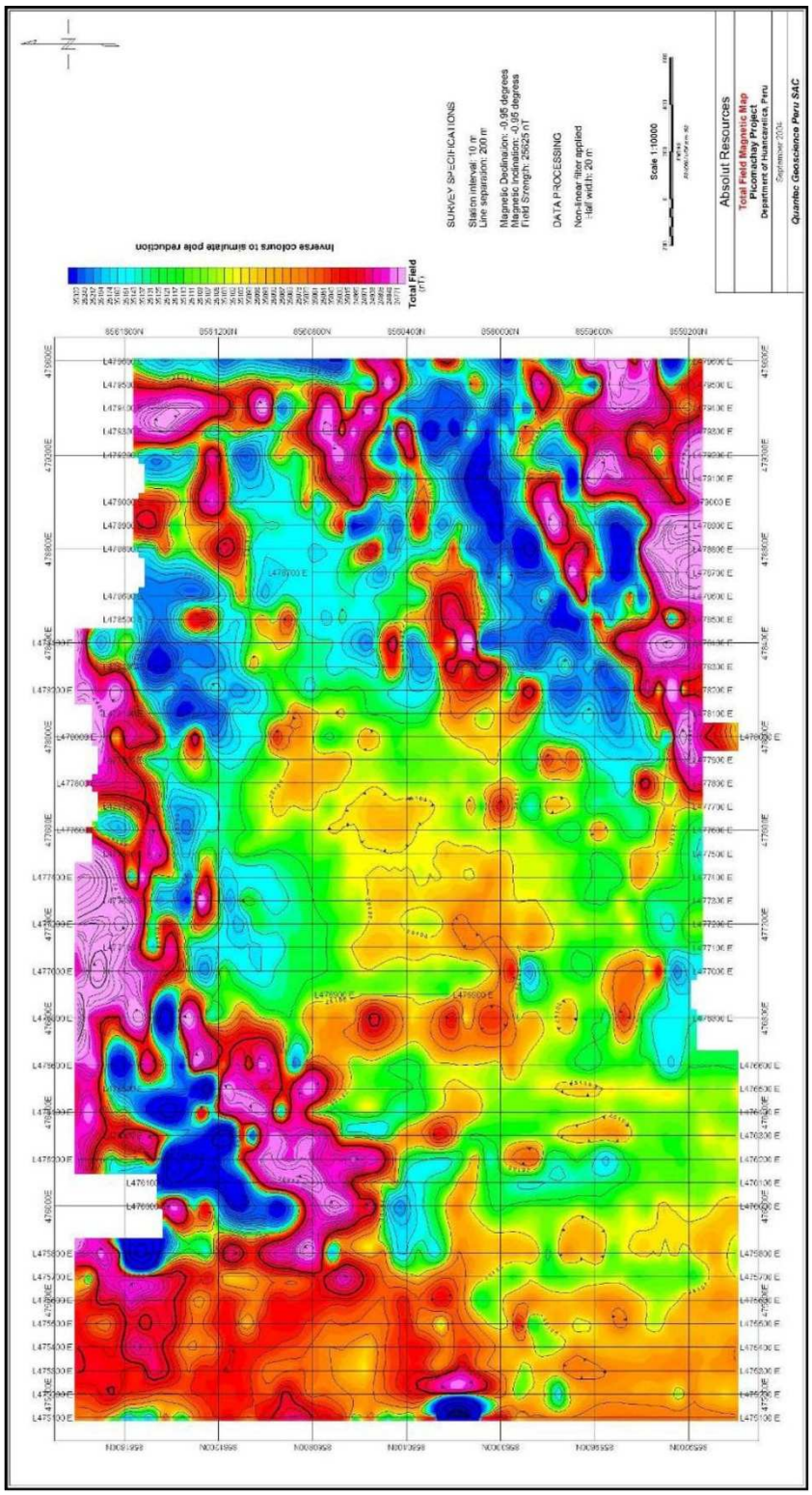

Figure 14. Surface magnetometer survey completed on the Pico Machay Gold Project in 2004.

Exploration Trenching

Exploration trenching at the Pico Machay Gold Project has been conducted on the Main Zone to assist in the delineation of surface mineralization. Three main trenches (trench 1, 2, and 3) were dug and continuous chip samples from the fresh trench wall rock were collected over 1 to 1.5 m intervals. The trench program was conducted in conjunction with the drill programs and returned appreciable Au assay results.

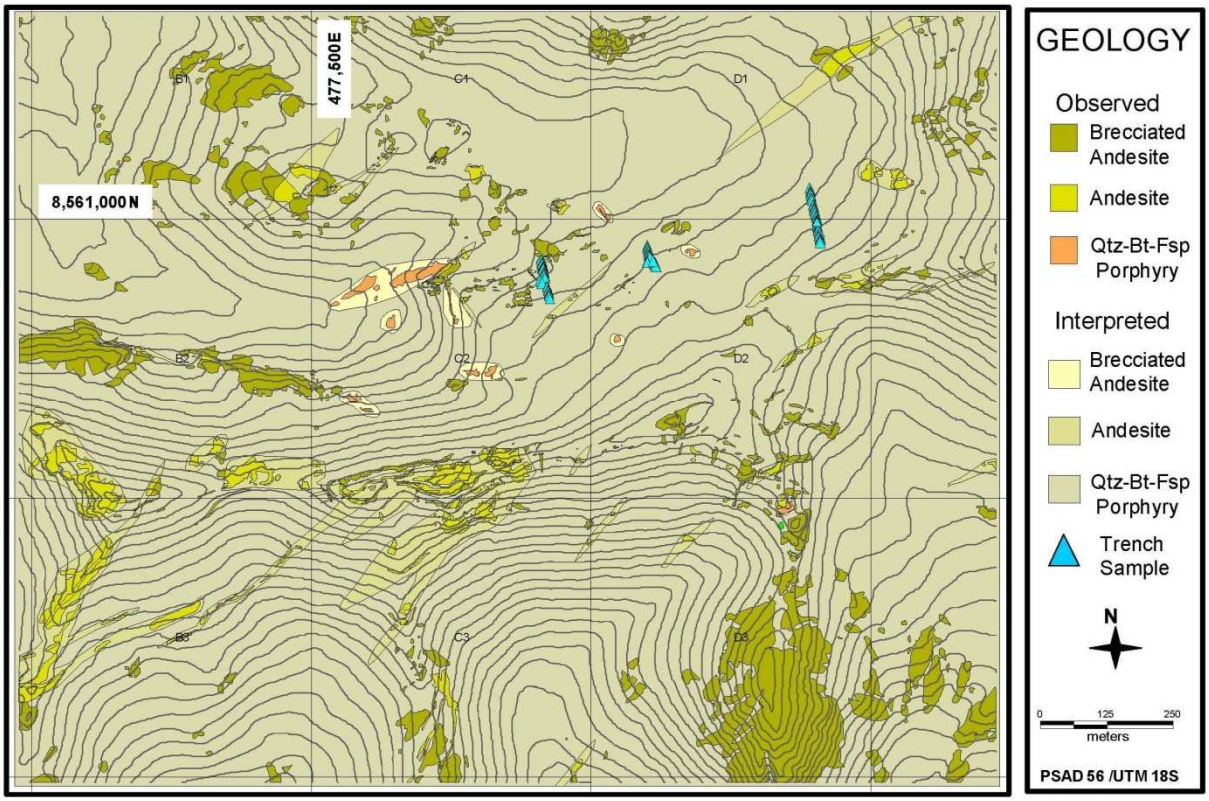

Figure 15. Map showing trench locations at the Pico Machay Gold Project.

Geological Mapping

In 2004 Melnyk completed a 1:10,000 scale geological map of 3,200 hectares covering 11 of the Pico Machay Gold Project. This map was used as the base exploration map until late 2009, when the immediate 6km2 region surrounding the Pico Machay Gold Project was re-mapped and re-interpreted by Aquiline staff geologists. The geologists purposely went outside the previous boundaries of the Pico Machay Gold Project deposit area and thus alteration, in order to observe fresh rocks.

Evaluation of the project area by Aquiline began with detailed interpretation of airphotos delineating surface exposures and interpreting structural trends. High resolution orthophotos of the project area with 25 centimetre pixel resolution were used. Base maps for field mapping were created based on the airphoto interpretation at scales from 1:1,000 to 1:2,500.

Field mapping identified 783 separate bedrock exposures. Data was collected at 392 field stations with systematic observations and descriptions including: lithology, alteration, mineralization and structure recorded. The field stations were located in the field on the printed base maps then digitized into MapInfo GIS software, which calculated coordinates for the field station database. This process produced greater accuracy then utilizing a non-differential GPS hand unit in the field. The Aquiline mapping program produced four separate 1:2,000 scale maps and resulted in a simplified interpretation of the geology.

The host rocks to mineralization at the Pico Machay Gold Project consisted of pyroclastics, andesitic breccias and fine- to coarse-grained, porphyritic andesitic flows and agglomerates of the Pliocene age Astobamba Fm. Current

field mapping found no evidence to support the existence of any extrusive volcanic rocks in the central portion of the Pico Machay Gold Project.

The Pico Machay Gold Project geology consists of the Auquivilca Formation sediments being intruded by a large stock of hornblende porphyritic diorite andesite. This is in agreement with the government Castrovirreyna Quadrangle geologic map. The andesite is exposed over an area minimally 4 km east-west and 2 km north-south. The preliminary interpreted geology map indicates the andesite occupies roughly 70% of the eastern portion of the core project area. The andesite also hosts nearly all of the known mineralization at the Pico Machay Gold Project. The majority of the mineralization is localized within breccias developed in the andesite. The felsic porphyry is spatially correlative with the known mineralization at the Pico Machay Gold Project. The majority of the known mineralization is located on the main ridge immediately south of the felsic-andesite contact.

Based on the mapping and re-interpretation of project geology, there appear to be two styles of brecciation within the andesite stock. The first is characterized by monolithic angular clasts that are clast supported. These breccias are observed to form linear zones and are interpreted to be tectonic in nature and delineate surface traces of large structures. The second style of breccia is characterized by monolithic sub-angular to very rounded clasts that are supported by a medium to high percentage of a milled matrix. The main body of the milled matrix breccia is located on the central Pico Machay ridge. These breccias exhibit an affinity to become altered and are spatially coincident with mineralization.

Mapping also confirmed compressional structural regimens existed pre, syn and post mineralization. It is believed the structural regimes resulted in reverse faulting, thrusting, and the formation of the tabular zones of brecciation within the PMS. Alteration and mineralization were primarily controlled by these fractured zones within the PMS.

The bedrock exposures are separated by Quaternary cover that is divided into colluvium, colluvium fans, rock glaciers and oconal (local word for wetlands).

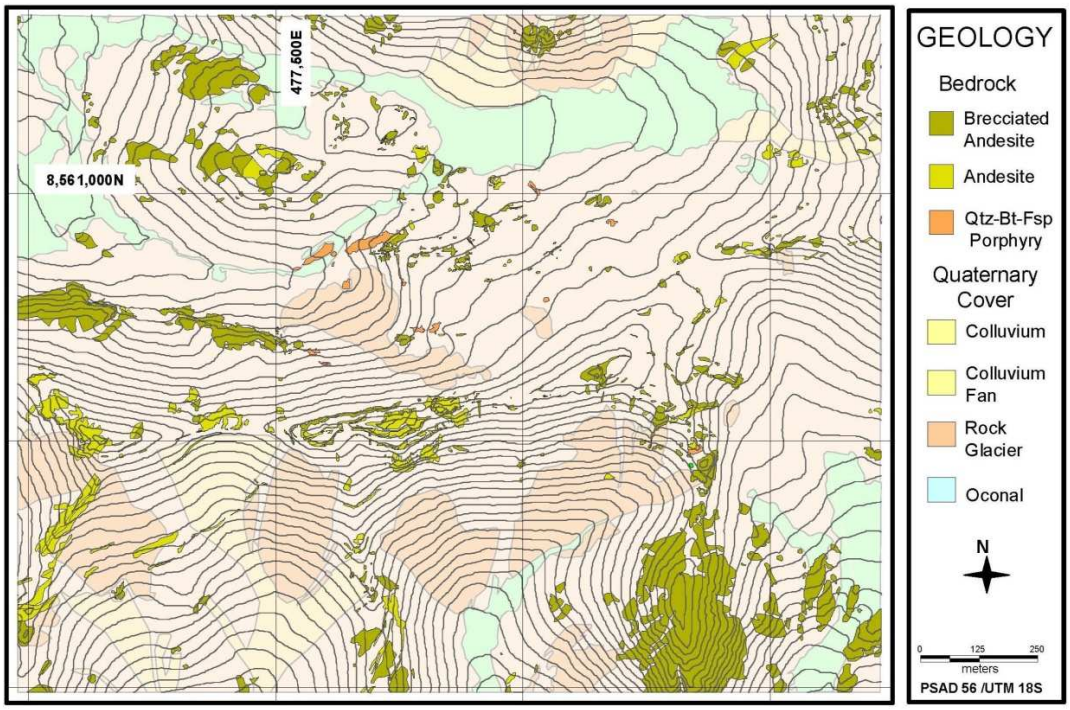

Figure 16. Fact map showing location of outcrop and areas overlain by Quaternary cover.

This map shows the bedrock exposures and the interpreted solid geology under the surface cover across the entire mapped area.

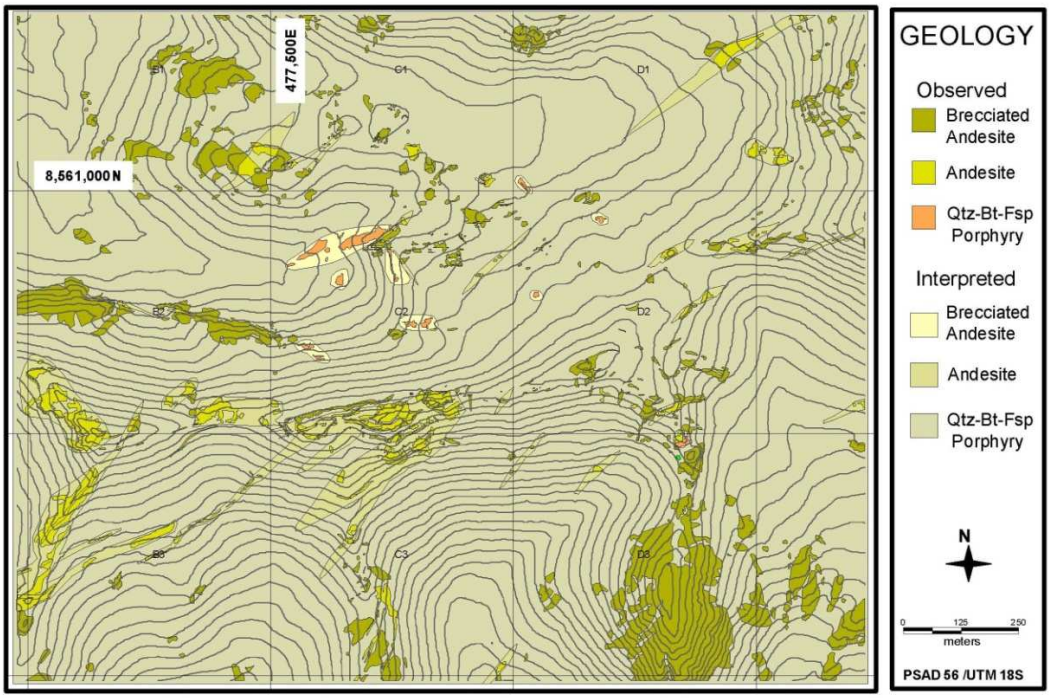

Figure 17. Geology Map.

This map shows the bedrock exposures and interpreted alteration under surface cover. The alteration at the top of all drill holes was logged and plotted on the map as squares with the same color coding to provide additional information. This was especially useful in areas lacking bedrock exposures.

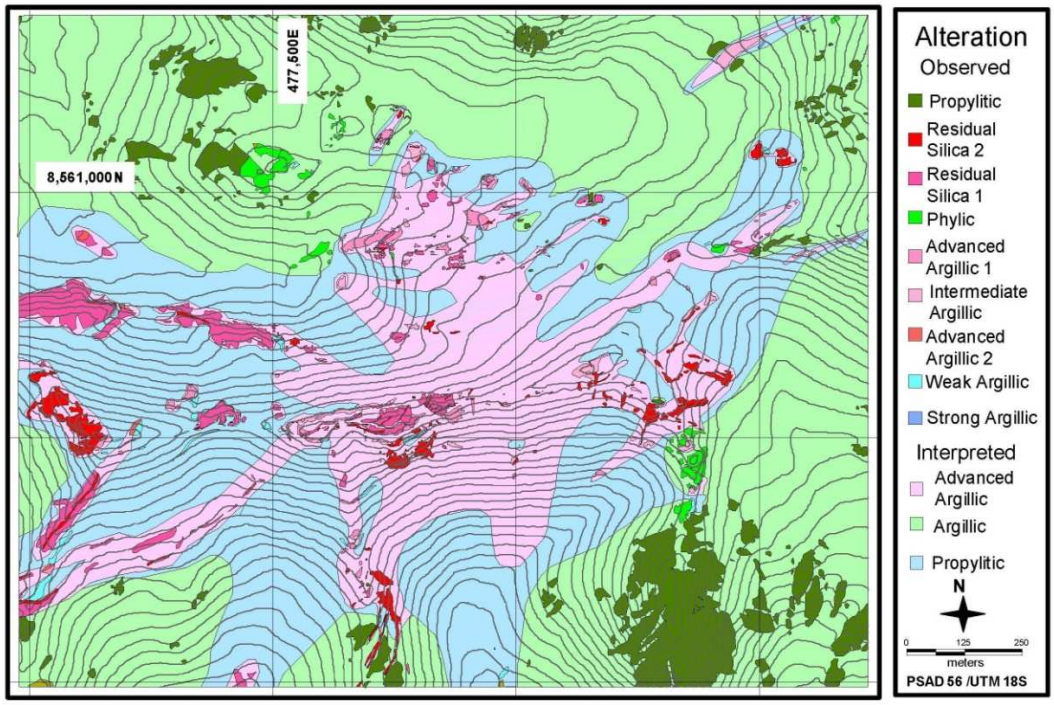

Figure 18. Alteration Map showing interpreted alteration based on outcrop.

This map uses the alteration map as a base over which surface rock chip samples and the vertically projected drill assays are plotted. The geochemistry is coded by color to indicate grade. The map also shows as dashed ellipsoids the identified exploration targets that are labelled "A" to "I".

Based on the recent mapping and re-interpretation of the geology and deposit model, nine exploration targets adjacent to the current known deposit were identified. The targets are untested by drilling, on strike projection of known mineralization and on strike of known proposed structural controls to mineralization such as zones of brecciation in the host intrusive rock. Despite the fact that the targets are on strike of known mineralization they do show a minimal degree of alteration of intermediate argillic, advanced argillic or residual silica alteration.

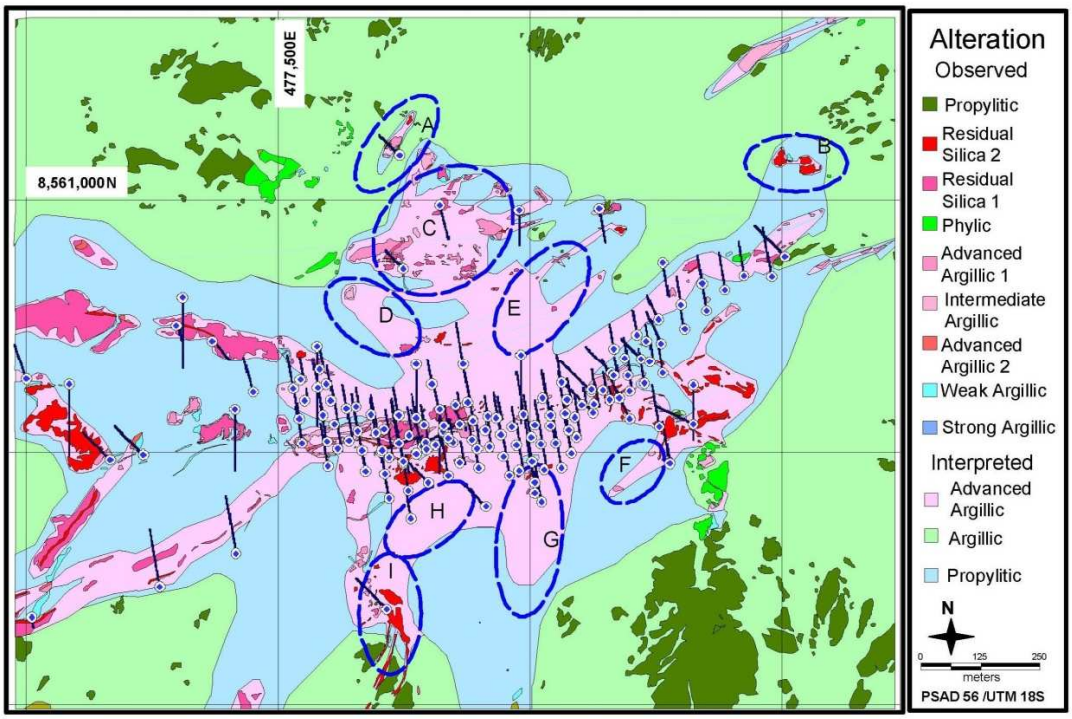

Figure 19. Exploration Target Map with alteration and drill traces shown.

The nine target areas are discussed below:

A. This target consists of a NE-SW trending structure with a core of residual silica. Surface rock chip samples collected from this zone are anomalous over a strike length of 185 m with a high value of 9.72 ppm Au. Drill hole ABS-126 intercepted 19.5 m averaging 1.14 ppm Au. The surface values and drill intercept suggest the mineralization is dipping to the NW and therefore should be tested by drilling this target with an inclined drill hole to the SE. Two short 60 m holes could test the zone to confirm continuity of the mineralization.

B. This target consists of a shallow NE-dipping residual silica ledge with weak surface geochemistry of 0.314 ppm Au. This area has no drilling and therefore warrants a minimum of two shallow 60 m holes to test the horizon at depth. The holes should be drilled to the SW from the NE side of the exposure.

C. This zone contains two existing drill holes: ABS-188 that intercepted 18 m at 0.95 ppm Au and hole ABS-154 that intercepted 27 m at 0.87 ppm Au. The mineralization in these two holes may, or may not be continuous, as they may represent separate mineralized trends. Hole ABS-188 is correlated with a ledge of silicified advanced argillic with a surface strike length of 115 m trending NE-SW and dipping to the SE. This zone reports surface values to 6.0 ppm Au. The zone warrants two short drill holes to test continuity. Hole ABS-154 maybe related to residual silica structures trending WNW-ESE for 220 m. This zone, due to its size, requires four holes at 75 m each to test for continuous mineralization. Another area of interest in target C is located 80 m north of hole ABS-188. This area has no drilling but did produce a surface value of 2.97 ppm Au and is hosted in breccia. This zone warrants two holes at 75 m.

D. This area has no drilling and few surface samples and is overlain by quaternary cover. The underlying geology is likely felsic porphyry, which may explain the high resistivity anomaly. This zone warrants two 60 m holes.

E. Like target "D", this zone has no drilling and is mostly overlain by quaternary cover. It is coincident with a shallow high resistivity anomaly and is on strike with silicified advanced argillic NE-SW trending structures off to the NE. Due to the size of this area it requires four holes of 75 m to test for mineralization.

F. This target is mostly overlain by quaternary cover but coincident with a high resistivity anomaly and on strike with a NE-SW trending residual silica structure to the NE. This structure was previously tested by drill hole ABS-117 and encountered only trace mineralization, however, like target "G", this target needs to be drill tested as part of the condemnation program for the waste dump. Four holes of 75 m each should be sufficient.

G. This zone is completely overlain by quaternary cover. It is coincident with a NNE-SSW trending resistivity anomaly, interpreted to be advanced argillic altered rock on trend with Au mineralization intersected in drilling to the NE. Four 100m drill holes are suggested for this zone to verify the trend or as part of the condemnation program.

H. This zone is interpreted to be advanced argillically altered rocks and is coincident with a shallow resistivity anomaly. It is on a NE-SW projection of intersected mineralization averaging 224 ppm Au over 97.5 m in ASB-152. This zone warrants four 75 m holes.

I. This target has produced multiple surface samples returning >1g/t Au including one of 3.0 ppm Au. The zone remains untested by drilling. Based on mapping, this area appears to be a small dilatational jog in a NNE-SSW trending residual silica structure. The zone warrants two 75 m holes to test the "jog" where several residual silica structures merge at surface.

A second phase of drilling is dependent upon the results obtained in the first phase.

Drilling

Five drill campaigns totaling approximately 17,600 metres across 246 holes (ABS-101 to 246) have been completed on the Pico Machay Gold Project by Minera Calipuy, primarily targeting the main mineralized area or Main Zone.

1. Phase 1 reverse circulation ("RC") drilling program comprising 990 metres across 6 drill holes (ABS-101 to 106) was carried out between May 25th and June 1st, 2004.
2. Phase 2 RC drilling program comprising 3,040.50 metres across 19 drill holes (ABS-107 through ABS-125) was carried out between October 3rd and 19th, 2004.
3. Phase 3 of RC drilling comprising 5,310.00 metres across 39 drill holes (ABS-126 to ABS-164) was carried out between April 27th and June 4th, 2005.
4. Phase 4 of RC drilling comprising 3,106.00 metres across 26 drill holes (ABS-165 to ABS-190) was completed between October 28th and November 13th, 2005.
5. Phase 5 of RC drilling comprising 5,110.00 metres across 70 drill holes (ABS-191 to ABS-246) was completed between July 24th and September 3rd, 2007.

The drilling targeted the Main Zone and was aimed to fill-in between earlier holes and test the near-deposit areas for the purpose of advancing a Resource Estimate. The drilling results indicated the presence of a silicified, mineralized body with significant anomalous gold values. The results of phase four and phase five were used in conjunction with earlier drill results from phases one, phase two and phase three to compile the current Resource Estimate using a 0.3 g/t Au cut-off.

HOLE_ID	EASTING	NORTHING	ELEVATION	AZIM	DIP	DEPTH
ABS-119	478008	8560440	4847	350	-55	156
ABS-120	477837	8560453	4857	350	-55	150
ABS-121	477264	8560233	4805	350	-55	201
ABS-122	477416	8560299	4808	350	-55	201
ABS-123	477897	8560470	4865	350	-65	150
ABS-124	477009	8560173	4836	170	-80	127.5

HOLE_ID	EASTING	NORTHING	ELEVATION	AZIM	DIP	DEPTH
ABS-125	478177	8560608	4929	335	-55	150
ABS-126	477740	8561090	4840	315	-55	100
ABS-127	477693	8560538	4925	350	-63	151
ABS-128	477738	8560518	4935	350	-55	151
ABS-129	477711	8560456	4893	350	-55	151
ABS-130	477805	8560635	4873	350	-60	100
ABS-131	478004	8560481	4870	350	-55	151
ABS-132	477867	8560674	4880	350	-55	149.5
ABS-133	477987	8560575	4930	350	-55	149.5
ABS-134	478125	8560578	4915	315	-55	151
ABS-135	478070	8560576	4924	350	-55	151
ABS-136	477705	8560503	4915	70	-55	149.5
ABS-137	477715	8560189	4772	315	-55	151
ABS-138	477673	8560462	4898	350	-55	151
ABS-139	477719	8560409	4860	350	-55	151
ABS-140	477773	8560568	4910	350	-55	94
ABS-141	478022	8560402	4810	350	-55	149.5
ABS-142	478081	8560498	4874	350	-55	121
ABS-143	478162	8560657	4940	315	-60	149.5
ABS-144	478506	8560890	4920	315	-55	151
ABS-145	477598	8560473	4915	350	-55	148
ABS-146	477763	8560368	4825	350	-55	97
ABS-147	478324	8560556	4907	295	-55	149.5
ABS-148	478121	8560620	4945	315	-55	149.5
ABS-149	477792	8560519	4926	60	-55	151
ABS-150	477942	8560534	4895	350	-55	149.5
ABS-151	477797	8560440	4852	315	-60	151
ABS-152	477911	8560393	4835	315	-55	100
ABS-153	477959	8560454	4853	350	-55	139
ABS-154	477747	8560866	4837	315	-55	88
ABS-155	478062	8560638	4927	350	-55	100
ABS-156	478425	8560852	4900	350	-55	119.5
ABS-157	477657	8560542	4920	350	-60	149.5
ABS-158	477165	8560485	4932	315	-60	149.5
ABS-159	476590	8560690	4903	135	-80	149.5
ABS-160	476685	8560680	4903	350	-60	100
ABS-161	477000	8560645	4857	340	-60	149.5
ABS-162	477449	8560619	4865	345	-60	146.5
ABS-163	478220	8560686	4932	315	-55	100
ABS-164	477231	8560494	4925	315	-57	151
ABS-165	478260	8560717	4924	335	-55	121
ABS-166	478306	8560746	4917	350	-60	100
ABS-167	478350	8560782	4908	350	-55	100
ABS-168	478387	8560824	4898	350	-55	131.5
ABS-169	477596	8560520	4928	350	-60	148
ABS-170	477635	8560587	4893	350	-62	100
ABS-171	477588	8560573	4895	350	-60	150
ABS-172	477541	8560565	4895	350	-60	100
ABS-173	477738	8560573	4906	350	-55	100
ABS-174	478227	8560636	4929	350	-60	145

HOLE_ID	EASTING	NORTHING	ELEVATION	AZIM	DIP	DEPTH
ABS-175	478166	8560706	4924	350	-60	100
ABS-176	478212	8560734	4923	350	-60	100
ABS-177	478254	8560764	4918	335	-58	100
ABS-178	478300	8560794	4910	350	-55	100
ABS-179	478342	8560835	4907	350	-55	100
ABS-180	477977	8560981	4854	180	-55	121
ABS-181	478137	8560984	4868	170	-55	121
ABS-182	478040	8560572	4923	350	-55	151
ABS-183	478050	8560518	4888	350	-55	151
ABS-184	477578	8560628	4858	350	-55	103
ABS-185	477529	8560626	4858	350	-55	121
ABS-186	478263	8560878	4894	170	-55	121
ABS-187	478062	8560469	4852	350	-55	139
ABS-188	477820	8560991	4830	165	-55	121
ABS-189	478264	8560658	4923	350	-55	119.5
ABS-190	477547	8560517	4920	350	-58	142
ABS-191	477582	8560665	4843	350	-57	80
ABS-192	477542	8560643	4847	350	-61	100
ABS-193	477552	8560603	4867	350	-70	80
ABS-194	478024	8560608	4927	350	-58	110.5
ABS-195	478230	8560721	4923	350	-55	70
ABS-196	478238	8560681	4928	350	-58	100
ABS-197	478187	8560687	4929	350	-55	80.5
ABS-198	478194	8560652	4934	350	-60	112
ABS-199	478167	8560652	4938	350	-60	85
ABS-200	477653	8560589	4890	350	-63	100
ABS-201	477683	8560574	4901	350	-63	100
ABS-202	477640	8560523	4919	350	-58	170.5
ABS-203	478008	8560419	4817	350	-55	80.5
ABS-204	478020	8560515	4881	350	-55	116.5
ABS-205	478092	8560529	4878	350	-55	80.5
ABS-206	477618	8560507	4919	350	-60	119.5
ABS-207	477852	8560593	4903	350	-65	70
ABS-208	477875	8560598	4904	350	-58	80.5
ABS-209	478121	8560625	4937	350	-55	80.5
ABS-210	478144	8560623	4935	350	-62	85
ABS-211	478072	8560604	4929	350	-55	80.5
ABS-212	478126	8560595	4916	350	-55	85
ABS-213	478103	8560594	4917	350	-60	80.5
ABS-214	477909	8560544	4903	350	-60	89.5
ABS-215	477963	8560550	4906	350	-55	80.5
ABS-216	478009	8560553	4907	350	-55	89.5
ABS-217	477611	8560556	4907	350	-60	130
ABS-218	477708	8560545	4921	350	-65	100
ABS-219	477760	8560533	4931	350	-61	119.5
ABS-220	477604	8560602	4876	350	-58	89.5
ABS-221	477933	8560567	4916	350	-55	80.5
ABS-222	477860	8560555	4928	330	-61	89.5
ABS-223	477862	8560553	4928	170	-85	89.5
ABS-224	477829	8560552	4922	350	-60	80.5

HOLE_ID	EASTING	NORTHING	ELEVATION	AZIM	DIP	DEPTH
ABS-225	477790	8560553	4923	350	-60	89.5
ABS-226	477838	8560528	4901	350	-55	76
ABS-227	477794	8560506	4902	350	-55	110.5
ABS-228	477774	8560496	4902	350	-61	85
ABS-229	477720	8560489	4905	350	-60	119.5
ABS-230	477977	8560464	4848	350	-55	85
ABS-231	478028	8560466	4847	350	-55	100
ABS-232	478157	8560604	4919	342	-70	88
ABS-233	478039	8560552	4899	350	-55	80.5
ABS-234	478089	8560569	4904	350	-55	80.5
ABS-235	478198	8560621	4923	350	-60	82
ABS-236	477895	8560507	4880	350	-60	100
ABS-237	477919	8560511	4879	350	-55	89.5
ABS-238	477973	8560514	4880	350	-55	80.5
ABS-239	477595	8560636	4857	350	-60	80.5
ABS-240	477812	8560513	4901	350	-85	95.5
ABS-241	477748	8560477	4902	170	-75	70
ABS-242	477747	8560481	4902	350	-80	100
ABS-243	477368	8560722	4814	140	-55	80.5
ABS-244	477947	8560492	4864	350	-55	100
ABS-245	477860	8560479	4861	350	-55	80.5
ABS-246	477297	8560753	4788	170	-55	50.5
PMRC-01	477821	8560585	4905	180	-55	222
PMRC-02	477414	8560584	4872	180	-55	210
PMRC-03	477085	8560635	4880	180	-55	249
PMRC-04	477309	8560808	4770	180	-55	246
PMRC-05	478324	8560633	4901	180	-55	192
PMRC-06	477773	8560674	4853	180	-55	210
PMRC-07	477981	8560693	4892	180	-55	240
PMRC-08	477575	8560711	4810	180	-55	279

Table 7. Aquiline (Phases 1-5) and Newcrest RC drill hole collars at Pico Machay.

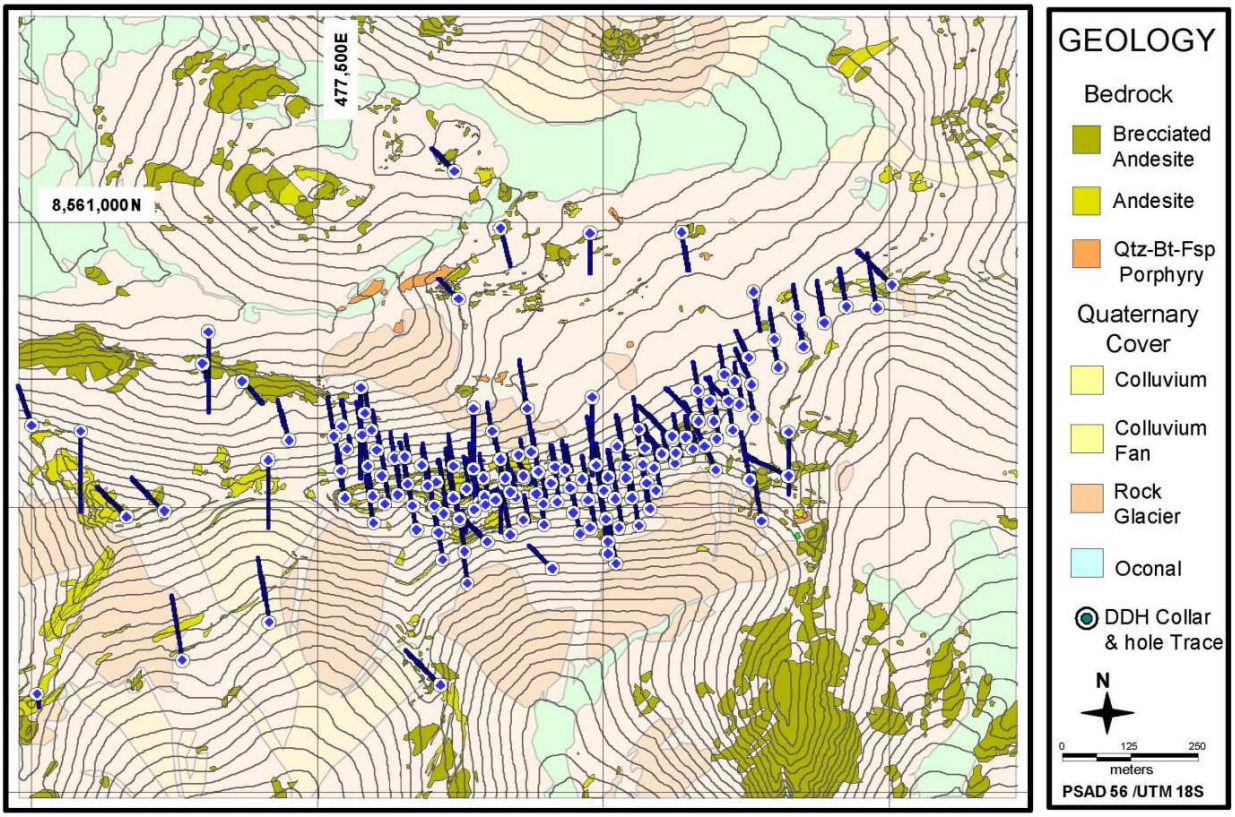

Figure 20. Collar locations and surface projections of all reverse circulation drill holes at Pico Machay.

Drill Hole No.	From (m)	To (m)	Interval (m)	Au (g/t)
ABS-126	55	67	12	2.66
ABS-128	28	119.5	91.5	0.95
ABS-131	5.5	149.5	144	0.88
including	13	26.5	13.5	2.34
including	122.5	130	7.5	2.82
ABS-140	28	70	42	1.81
ABS-148	0	40	40	1.8
ABS-157	34	89.5	55.5	1.91
including	53.5	68.5	15	2.75
ABS-163	14.5	83.5	69	1.18
including	20.5	29.5	9	2.47
including	61	73	12	2.54

Table 8. Sample of Assay Results.

Drilling and Logging Procedures

Drilling utilized the Center Sample Rotary Method, otherwise known as RC, using a 4 inch outside diameter by 2 inch inside diameter, double-walled drill pipe, interchange, and a down-hole hammer, or face sampling hammer. The minimum hole diameter was 4.5 inches and the maximum hole diameter was 5.5 inches.

Drill holes were planned using surface structure, assay (Au) results from soil sampling and continuous rock chip sampling, and geophysical surveys. The drill itself was aligned using a compass to check azimuth and head inclination. Collar locations were determined by measuring with a tape from the locally established grid or from previous drill collars, and after drilling collar locations were surveyed using a hand held GPS unit. During the course

of drilling, Minera Calipuy personnel were on the drill rig at all times and a drill monitoring sheet was maintained for each hole. The preface ABS was used for all Absolut RC drill holes, while previous drill holes competed by Newcrest used PMRC to preface the RC drill holes (PMRC-01 through PMRC-06).

No down hole surveys were conducted. The information in this Prospectus uses the assumed hole projection which assumes nominal deviation from the inclination and azimuth measured at the drill head. Caracle Creek International Consulting Inc. ("CCIC") is satisfied with the drill hole orientation information supplied as the drill holes were relatively shallow and large deviations would not be expected.

Paper geological logs were made for each of the drill holes, recording information that included drill hole name, drill hole azimuth, inclination, location, start and finish dates, and final depth of hole. Also provided on the drill logs were observations on geology, rock type, and indications of epithermal alteration (weak-medium-strong), textures, mineralization (percentages of oxide and/or sulphide), and level of chlorite-epidote alteration (weak-medium-strong).

Sampling Method and Approach

RC Drilling

The cuttings from the RC drilling were collected over 1.5 meter intervals, except for the first interval which was 1.0 meters. The samples were collected utilizing either a three-tier Jones Splitter or a hydraulic wet splitter, depending on the moisture content of the sample. A total of 12,804 samples were collected over the five phases of drilling.

For dry cuttings, the total interval of cuttings was collected and weighed to estimate percent recovery, then split, using a Jones Splitter, placing a 0.25 (¼) split in a labelled plastic bag and stored for shipment to the analytical lab. The remaining sample was also labelled and placed in a plastic bag and stored in an on-site facility. The Jones Splitter was cleaned with compressed air and/or brushes between each sample interval.

For wet cuttings a hydraulic wet splitter was used and was preset to split the sample into 0.25 (¼) and 0.75 (¾) portions. The samples were numbered and bagged in cloth bags and allowed to dry. Once sufficiently dry, the entire sample (¼ and ¾ splits) was weighed to determine percent recovery. The 0.25 (¼) split was then sent to the analytical lab and the 0.75 (¾) split was stored in an on-site facility.

Two assay standards and an analytical blank were inserted for every 40 samples, which corresponds to a sample batch at the laboratory. Two duplicate samples were also included with each shipment. Assay standards consisted of both a laboratory certified high grade and low grade 100 g pulp. The analytical blank consisted of coarse-grained barren quartz. The duplicate sample, a 0.25 (¼) split, was collected at the same time as the original sample, using the same procedure. In order to check for lab analysis reproducibility, duplicate samples were labelled with an out of sequence number so that they would not be analyzed in the same batch as the original sample.

Density Determination

In August 2005, Absolut submitted eleven samples to ALS Chemex S.A., a division of ALS Chemex, for density determination. No additional density work has been conducted for the project. A mean specific gravity value of 2.32 g/cm3 was employed in the current Mineral Resource Estimate and is based on the limited available density data.

Location (Drill Pad)	Sample No.	Density (g/cm^3)	Mineralization Type
ABS-101	1011	2.30	Oxide
	1012	2.38	Mixed
	1013	2.29	Oxide
ABS-104	1041	2.40	Oxide
	1042	2.36	Mixed
	1043	2.42	Mixed
ABS-106	1061	2.25	Oxide
	1062	2.25	Oxide
ABS-107	1071	2.17	Oxide
	1072	2.16	Oxide
	1073	2.49	Sulphide
	AVERAGE:	**2.32**	

Table 9. Specific gravity data for the Pico Machay Gold Project.

Sample Preparation, Analyses and Security

Sample Preparation

Individual drill holes samples were sent to the laboratory as individual batches in order to optimally track and minimize possible handling and/or sample preparation errors. Prior to shipment to the laboratory, each sample bag was checked to verify it was numbered properly and sealed. Individual samples were placed in large bags and sealed for shipment. Samples were transported to Lima by a contract trucker who, upon arrival in Lima, would telephone the Aquiline office to verify that the samples had arrived. Samples collected were representative of the core interval and of good quality.

Sample Security

RC sample cuttings that are not shipped to the laboratory for analyses are stored in an on-site warehouse structure on the Pico Machay Gold Project. The remaining course rejects and pulps returned to Aquiline by the laboratory are stored in Lima with Abil Corporación S.A., a company that specializes in the secure storage of sample material. Representative RC cuttings from each drill hole are stored in well labelled and secured sample trays in a locked shed within the Aquiline office compound in Lima.

Photo 11. RC cutting stored on the Pico Machay Gold Project. Photo 12. RC chip storage (Drill hole ABS-163).

Sample Analysis–RC Drill Samples

Drill core samples were analysed at the ACME and ALS Chemex Labs in Lima, Peru. Both labs used the same analytical methods. Each of the RC cuttings samples were subjected to the following preparation regime:

- dried in an oven at 110°C;
- entire sample crushed to 70% at -2 mm using a large pulverizing mill;
- a 250 g split is collected using a riffle splitter; and
- the 250 g split is then pulverized to 85% at -75 micron using a ring and puck mill.

The samples were then analyzed for gold using a conventional 30 g fire assay process and an Atomic Absorption finish. The samples are also analyzed for 34 elements by aqua regia digestion ICP-AES and for Hg by Cold Vapour/AAS.

Quality Assurance

Samples from drill holes ABS-100 -191 were sent to ALS Chemex, in Lima for analysis. This lab is fully certified and certificates for the lab can be viewed online at www.alsglobal.com. Samples from drill holes ABS-192 - 246 were sent to ACME Labs in Lima, which have recently obtained certification and the certificates can be viewed online at www.acmelab.com.

A data verification program was conducted on the assay data which involved verifying that values in the certificates matched the digital data in the spreadsheets that was used for modelling and the resource calculations.

Data Verification

As part of the data verification process, personnel from CCIC visited the Aquiline offices in Lima between September 2nd and 7th, 2009 and completed a site visit on September 5th, 2009. CCIC had discussions with geologists that have worked on the Pico Machay Gold Project or are familiar with the Pico Machay Gold Project geology and style of mineralization being explored for on the Pico Machay Gold Project. In addition, CCIC reviewed the Company's assay certificates, original reverse circulation drill logs, signed copies of agreements and other information relating to the Pico Machay Gold Project. All available technical data supplied by Aquiline was reviewed by CCIC. Based on the samples collected by CCIC as well as a full database review and the results of an independent quality assurance/quality control ("QA/QC") review, the data is suitable for resource estimation.

Site Visit and Due Diligence Sampling

Between September 2nd and September 7th, 2009, Doris Fox, on behalf of CCIC, visited the offices of Aquiline located in Lima Peru. A visit to the Pico Machay Gold Project was completed (September 5th), 19 drill hole sample pulps were re-sampled and data was reviewed with geologist Francisco Solano, and by conference call with Dean Williams (Aquiline Chief geologist) both of whom are thoroughly familiar with the Pico Machay Gold Project, have extensive knowledge of high sulphidation epithermal gold deposits, and are familiar with the procedures required to explore and mine in Peru.

A total of 7 samples were collected from the Pico Machay Gold Project both as grab samples and as chip samples from recent trenches. The samples were collected and handled personally by Doris Fox. Locations of samples were recorded using a hand held Garmin GPS76 unit and trench chip sample ID location, written with paint at the location of each Company sample location was recorded for cross-referencing. The samples were transported back to Lima, Peru where they were re-packed and delivered to the analytical lab of SGS Lima, located at Av Elmer Faucett 3348, Callao 1, Lima Peru in addition to 19 pulp samples selected from drill logs and sent for re-assay.

The grab samples were collected from areas representative of the surface expression of the mineralization targeted in the drilling programs. Two random grab samples from surface mineralization were collected and five samples were collected from the recent trench locations.

Drill hole samples were selected to test medium to high-grade zones (< 700 ppb) within the mineralized deposit. A suite of samples, up to four, from a mineralized zone within each drill hole were selected. The drill holes from which the samples were selected were chosen based on spatial distribution across the deposit. Since the original assays were analysed at two different labs, it was important to verify results from both labs. In total, six drill holes were selected, three with assays originally analysed at ALS Chemex, Peru and three with assays originally assayed at ACME Labs, Peru.

DDH	Sample ID	Au ppb	Au g/t	Ag ppm	As ppm
ABS-119	1834	3788	--	2.7	902
ABS-119	1836	1178	--	1.3	101
ABS-119	1837	2579	--	1.6	56
ABS-149	5162	1950	--	4.8	79
ABS-149	5164	973	--	2.2	<30
ABS-149	5166	2038	--	5.8	<30
ABS-149	5167	1667	--	3.3	<30
ABS-157	5843	2663	--	17.7	32
ABS-157	5860	1884	--	5.4	31
ABS-157	5862	4013	--	13.8	<30
ABS-220	10974	1280	--	10.3	56
ABS-220	10983	--	6.41	22.8	<30
ABS-220	10988	3131	--	14.4	<30
ABS-204	9923	1205	--	1.2	95
ABS-204	9924	755	--	0.6	36
ABS-204	9982	325	--	<0.3	88
ABS-210	10315	4504	--	7.8	266
ABS-210	10326	1797	--	1.8	<30
ABS-210	10347	779	--	1	256
Grab	DF 001	--	5.77	12.4	478
Grab	DF 002	1763	--	16.2	183
Grab	DF-TC-2 001	4021	--	16.1	294
Grab	DF-TC-2 002	2636	--	7.5	349
Grab	DF-TC-2 003	1217	--	6.2	107
Grab	DF-TC-3 004	1071	--	0.6	104
Grab	DF-TC-3 005	1128	--	1.1	247
Lab QA/QC	*DUP 1834	3859	--	2.6	882
Lab QA/QC	*DUP 10974	1325	--	10.4	80
Lab QA/QC	*DUP DF 001	--	5.67	12.6	541

Table 10. Coordinates and assays from grab samples and pulps collected during 2009 site visit.

There is good correlation between the assay values recorded by Aquiline from the two analytical labs and the re-assay of the pulps selected by CCIC and analysed by SGS Lima. The re-analysis does not provide any information about the preparation of the samples or any possible preparation errors / contamination that may have occurred. The CCIC sample 9982 did not return a value within normal range suggesting there may have been either 1) lab error during analysis; 2) contamination during the original analysis; 3) nugget effect; 4) data entry error. Since the remaining samples returned values within a normal range (+/- 10%) of the original assay result, and the QA/QC review concluded the assays were reliable. The discrepancy in sample 9982 is likely a human error and not related to systematic assay database inaccuracies.

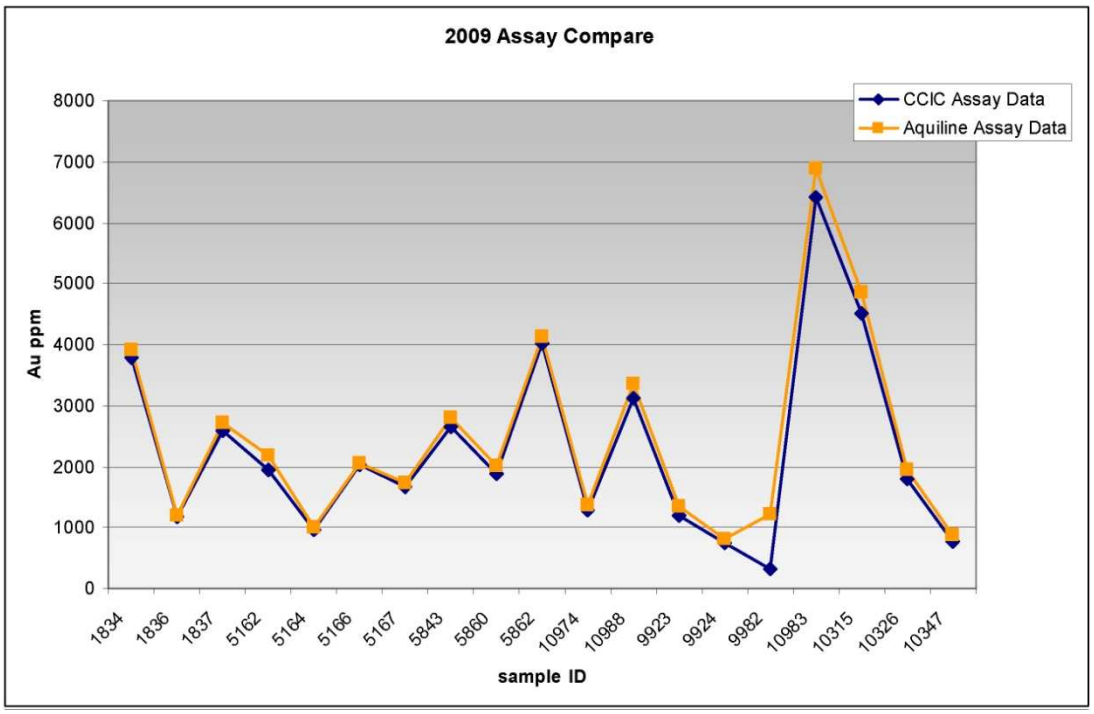

Figure 21. Comparison of pulps and grab sample assay results from 2009 site visit with the Company's assay results.

The assays from grab samples collected on the Pico Machay Gold Project by CCIC are considered representative of the style of gold mineralization found on the Pico Machay Gold Project and that which comprises the current Mineral Resource estimate. The quality and extent of data collected from reverse circulation drilling was found to be reliable for the current Mineral Resource estimation and as such no further samples were collected for re-assay against original drilling results.

GPS Points

During the site visit, 2 drill collar positions were recorded using the hand held GPS unit. Although these measurements were sufficiently close to the drill collar positions provided by Aquiline and used in the current Mineral Resource Estimate, CCIC recommends a Differential GPS unit (i.e. Trimble) be used in Mineral Resource and Reserve calculations to gain better control on drill collar positions (i.e. X, Y and Z planes).

Quality Control

A recent independent QA/QC review of the Company's assay results was conducted to verify the data collection methods, sample storage, assay results and data management which were found to be satisfactory.

In August 2008, sixty RC reject quarter samples were re-sampled using a Gilson Splitter. The samples were selected, collected and transferred to the ALS Chemex Lab in Lima, Peru. Six samples were also analysed at CIMM as a double check. Sample selection was based on: 1) distribution over widespread drill holes without focusing on any particular mineralized zone; and 2) selection of samples that previously returned moderate to high-grade (>300 ppb Au) values. However the storage of the RC rejects on the property is not systematically organised and the pre-selection was therefore not feasible. Instead, the researchers randomly selected 100 RC reject bags (~300 samples total) and then selected samples from that group if they met the geographic and assay values requirements.

The conclusions of the QA/QC review include: 1) There is excellent correspondence between assay results reported by the company and assay results obtained during the verification program; 2) Au results are within 10% of the Company's results for higher-grade samples; 3) Assay results show greater variation for lower-grade samples; 4) variation in Ag results were deemed normal; 5) The results of the verification program corroborates results reported by the Company with minor, expected, variations.

Mineral Processing and Metallurgical Testing

In 2007 and 2008, Minera Calipuy contracted Metcom ingenieros S.A.C, an independent engineering firm in Lima, Peru to conduct three sets of metallurgy tests, the methods and results of which are summarized below.

Following a review of Minera Calipuy's metallurgy testwork results, Pan American completed three sets of metallurgical testwork for Pico Machay in 2010, first using Pan American's laboratory facilities at the Morococha Mine in Peruand SGS Laboratoriesfor intial two sets of testwork, then Nevada-based McClelland Laboratories Inc. for the third set of testwork.

Mineral Description

At Pico Machay the mineralization presents three states of oxidation (oxide, mixed and sulphide) hosted within multiple styles of alteration. Of these three oxidation states, oxides and mixed are amenable to leaching. From the metallurgical test work described below it has been determined that to maximize Au recovery, it would be optimal to blend the advanced argillic alteration with the silicic alteration. The tests also indicate that there is a degree of refractory Au reflected in a larger than expected consumption of lime and cyanide required to dissolve the Au in solution.

First Phase Mettallurgical Test

For each alteration type and for each fragment size, the percentage of Au and Ag recoverability was determined. Of the three alteration types the one returning better average Au recovery in solution was the Argillic alteration at 96.17%, while the other alteration types returned values near 90%. Analysis of the solubility, for each fragment size in all alteration types, returned values greater than 80% solubility indicating the Au is soluble in cyanide solution, and the Au may be fine and free in all size ranges. There is good recovery using cyanide solution in all the alteration types. The results obtained from the solubility tests confirm amenability to the cyaniding process.

As part of the metallurgy testing, 32-element ICP analysis was conduced on all samples to determine the influence of minor elements on Au and Ag recovery. The tests found that no elements greatly affected the recovery (dissolution or adsorption processes) of Au or Ag and that null values of Hg were reported and therefore adsorption of Hg with activated charcoal produced null mercurous smoke, greatly reducing the health and safety and environmental concerns of Hg contamination.

Cyanide Tests by Agitation

For each alteration type, cyanide bottle roll tests were conducted under the conditions laid out in Table 11. The material used was crushed to ¾" and two sets of tests were conducted at different cyanide concentations.

Cyanide concentration:	50 and 500 mg/lt
pH:	10.5 (conditioned with lime)
Granulometry:	100% - ¾"
Solids weight:	2000 grammes
Water volume:	4000 mililitres
Agitation time:	1, 2, 4, 8, 12, 24, 36, 48 and 72 hours

Table 11. Conditions of cyanide bottle roll tests.

	Cyanide Concentration (50 ppm)		
	Gold Recovery (%)		
Time	Silicated	Adv. Argilic	Argilic
0	0.00	0.00	0.00
1	38.62	52.03	41.54
2	49.66	61.79	52.31
4	58.62	69.92	64.62
8	66.21	74.80	75.38
12	70.34	87.80	83.08
24	77.24	89.43	89.23
36	79.31	91.06	90.77
48	80.69	91.06	90.77
72	82.76	87.80	90.77

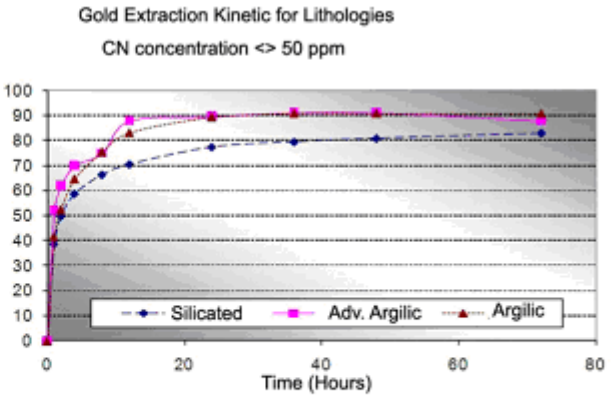

Figure 22. Average recovery 87.11% with 50ppm cyanide solution.

	Cyanide Concentration (500 ppm)		
	Gold Recovery(%)		
Time	Silicated	Adv. Argilic	Argilic
0	0.00	0.00	0.00
1	62.84	78.74	38.62
2	71.62	81.89	49.66
4	77.03	86.61	58.62
8	79.05	86.61	66.21
12	83.11	88.19	70.34
24	87.84	88.19	77.24
36	89.19	88.19	79.31
48	89.19	88.19	80.69
72	90.54	89.76	82.76

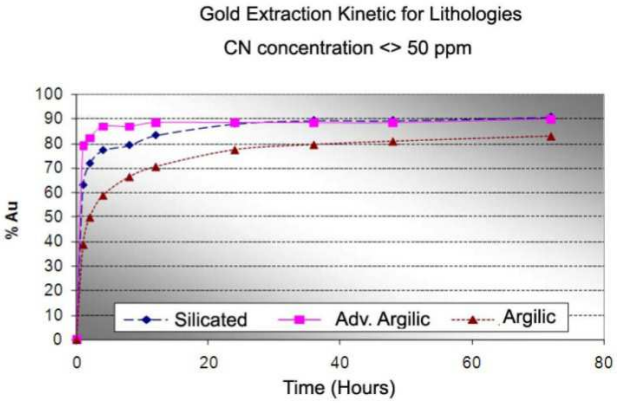

Figure 23. Average recovery 87.668% with 500ppm cyanide solution.

The results from the active bottle roll tests, with coarse granulometry (<¾"), returned positive results. Results for both cyanide concentration cases (50 and 500 ppm) averaged greater than 87% Au recovery. The column leach tests were conducted using 50 mg/1 concentration of cyanide only.

Second Phase Metallurgy Tests

Solubility

The results obtained from the solubility tests in phase one confirmed the amenability of the blend towards the cyanide leaching process. Recoverability using cyanide solution = 87.82% Au.

Bottle Roll Tests

Bottle roll tests were performed for the alteration blend, under the conditions listed below in Table 12.

Cyanide concentration:	50 and 500 mg/lt
pH:	10.5 (conditioned with lime)
Granulometry:	100% - ¾"
Solids weight:	2000 gm

Water volume:	4000 ml
Agitation time:	1, 2, 4, 8, 12, 24, 36, 48 and 72 hours

Table 12. Conditions of bottle roll tests.

Bottled Cyaniding

Time	50 ppm	500 ppm
0	0.00	0.00
1	26.86	38.73
2	38.87	50.72
4	49.57	61.51
8	59.68	68.97
12	64.60	72.33
24	72.65	79.95
36	76.24	81.34
48	78.33	83.45
72	80.43	86.27

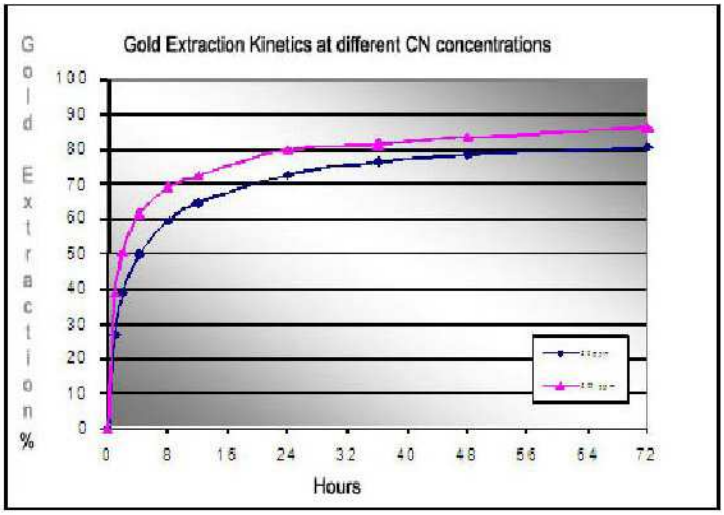

Figure 24. Bottle cyanide tests.

The bottle roll tests indicate 80.43% (for 50 ppm cyanide) and 86.27% (for 500 ppm cyanide) Au recovery occurs after 72 hours of agitation.

Column Leach Test

The high Au recoveries reached during the first days of leaching imply that there is fine free gold which dissolves rapidly with cyanide. Au recoveries nearing 60% during the first twelve days of irrigation were obtained.

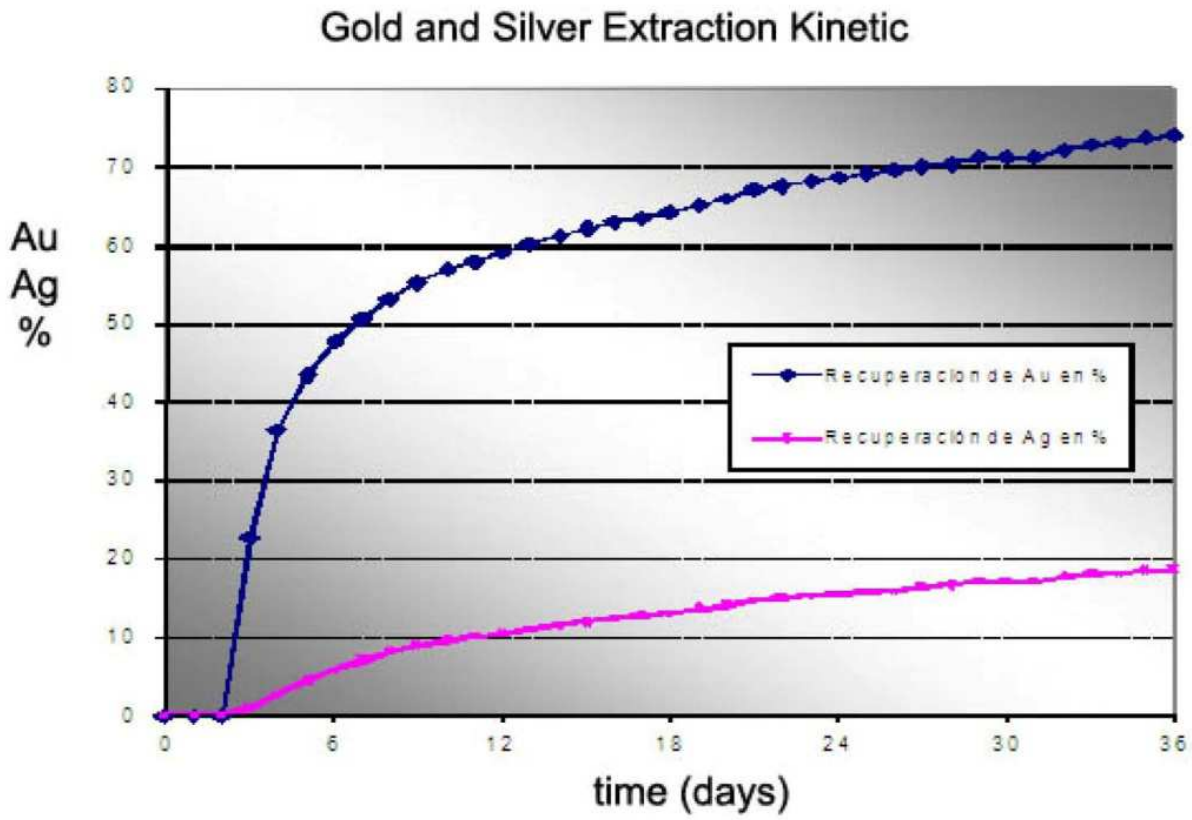

Figure 25. Au and Ag extraction kinetics.

Column Cyanide Tests

Based on the previous test results, additional tests using increased cyanide concentrations of 100 and 200 ppm were conducted. By using higher concentrations of cyanide, the expectation was that recovery would increase. The results obtained show a recovery > 89% in average for the two sample types when leached with 100 ppm sodium cyanide solution. For the 200 ppm solution recoveries in sample L1L3 increased by 4%, but recoveries in alteration L2 were lower by 6%. In the case of Ag there was a substantial recovery increment when increasing cyanide concentration in the solution.

The tests performed with 100 ppm were repeated at larger scales in columns of 18" diameter as part of the Phase III metallurgy testing. Tests at larger scale, approach what would be obtained during operation.

Third Phase Metallurgy Tests

Column leach tests in 8" diameter columns, increasing cyanide concentration to 100 and 200 ppm were conducted as part of the Phase III tests. Tests were also performed in columns of larger size (18" diameter columns) to confirm the consumption of reagents and operational parameters. The oxidation state of the material used for these column leach test was of the mixed variety.

The tests were carried out on two sets of material:

1. A blend of silicic and argillic alteration with an oxidation state of mixed (L1L3)

2. Advanced argillic alteration with an oxidation state of mixed (L2)

The results of the tests' third phase returned the following results:

8" Diametre Column: To determine the recoveries of gold and silver for L1L3 and L2 at cyanide concentrations between 100 and 200 ppm, leach tests were performed in columns under the following conditions: .

Sample granulometry:	100% - 2"
Dry sample weight:	85 – 90 Kg
Leaching Rate:	8 lt/hr/m^2
Cyanide Concentration:	100 y 200 mg/l
pH:	10 – 10.5
Test type:	Open

			Reagent Consumption (Kg/t		Leach Cycle (days	Recovery (%)	
Test No.	Sample	CN (mg/l)	Cyanide	Lime		Gold	Silver
Test 1	L2	100	0.109	2.91	38	88.36	12.07
Test 4	L2	200	0.317	2.95	41	82.42	23.57
Test 2	L1L3	100	0.204	3.24	48	89.84	18.38
Test 3	L1L3	200	0.390	3.18	47	93.74	24.72

Table 13. Test results of 8" diameter tests.

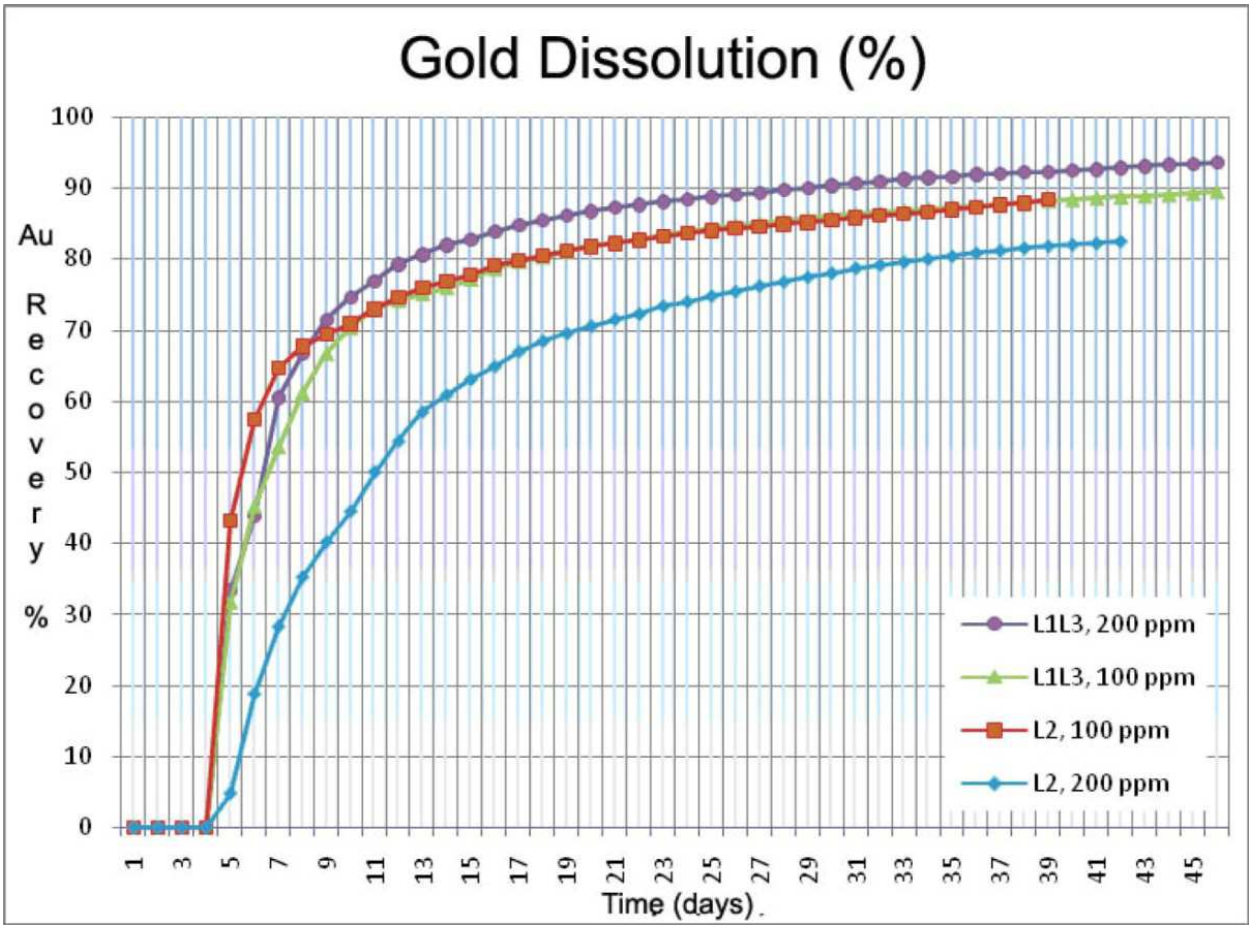

Figure 26. Au dissolution Phase III metallurgy tests.

The results show a recovery > 89% average for the two sample types when leached with 100 ppm sodium cyanide solution. For the 200 ppm solution recoveries in sample L1L3 increased by 4%, but recoveries in alteration L2 were lower by 6%. In the case of Ag there was a substantial recovery increase when increasing cyanide concentration in the solution.

The tests performed with 100 ppm were repeated at larger scales in columns of 18″ diameter. Larger scale tests are mimic conditions (consumption and recovery) that would be used at the operation stage.

18″ column tests: To determine recoveries of gold and silver for the samples L1L3 and L2 at larger mineral fragment sizes (100% - 4″). Leach tests are performed in columns under the conditions listed below. Recoveries obtained remain above 75% in average, and average 80.4%.

Sample granulometry:	100% - 4
Dry sample weight:	850– 900Kg
Leaching Rate:	8 l/hr/m^2
Cyanide Concentration:	100 mg/l
pH:	10 – 10.5
Test type:	Closed

			Reagent Consumption (Kg/t		Leach Cycle (days	Recovery (%)	
Test No.	**Sample**	**CN (mg/l)**	**Cyanide**	**Lime**		**Gold**	**Silver**
Test 5	L1L3	100	0.149	2.64	56	84.96	19.25
Test 6	L2	10	0.157	2.62	50	75.81	14.30

Table 14. Test results for 18″ columns.

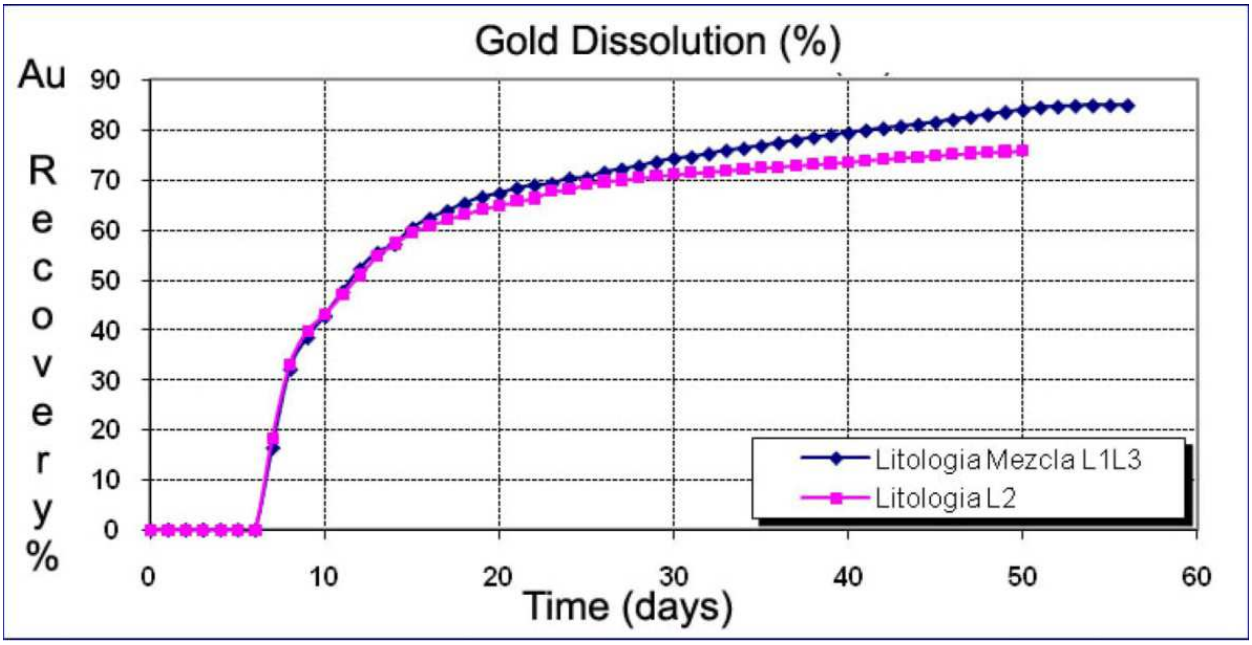

Figure 27. Au dissolution 18″ columns.

The mineral granulometry in operation would be 100% - 6" diameter, with approximately 4% of fragments <4" – 6">. The estimated recoveries during operation would be approximately 70%.

Summary of Results of Metallurgy Tests

Au and Ag production valuation of the company is based on the results from the metallurgical tests carried out by Metcom Ingenieros S.A.C. Based on those results, a metallurgical recovery at an industrial (commercial) level of 70% Au and 30% Ag is projected. The metallurgical balance results in an Au-Ag bullion with grades expressed in percentages of 60% (199 ounces) Au and 35% (90 thousand ounces) Ag at the project level.

Processing

Based on the results of the 2008 resource estimate and subsequent metallurgy tests, Minera Calipuy contracted Golder Associates Peru S.A. for leach pad, pregnant and barren ponds and waste dump design; Horizons South America S.A.C. for topographic surveys; Cesel Ingenieros S.A. for an environmental impact study (2008); and Esondi S.A. for geotechnical drilling on the sites of the proposed leach pad and dumpsite. The positive results of the exploration program and metallurgy tests allowed Minera Calipuy to consider the advancement of the program and begin to consider mining, processing and operations of any future mining of the Pico Machay gold deposit.

Heap leaching has been designed based on the mineral characterization and the results of the metallurgical tests. The presence of Ag in the pregnant solution is not important in the case of Pico Machay. Carbon in Column is considered to be the most appropriate method for Au recovery. The Heap Leach process consists of the following stages: Leaching, Collection of Pregnant Solution, Adsorption, Desorption, Electro-deposition / Electrowinning, Smelting and Reactivation of Activated Carbon.

Additional facilities would include: chemical laboratory, maintenance shops, fresh water supply, energy supply and general services.

First Phase Metallurgy Tests

Based on a new Pan American geologic interpretation of Pico Machay, seven samples of RC cutting composites were selected for bottle roll cyanidation testing from three newly defined lithologies: Silica Gris, Silica Alunita, and Silica Argilica. Drill hole intervals for compositing were selected based on moderate grade samples with a target of between 0.75 g/t and 1.2 g/t; a grade range typical of the expected open pit. Using Pan American's facilities at the Morococha Mine and SGS Laboratories, the samples were combined to make composites of the 3 defined lithologies, as well as a composite of the deep feeder zone (classified as Silica Gris) and two composites of the Silica Argilica material: one from depth and the other nearer to surface.

The bottle roll cyanidation tests were conducted at 50% solids with 1 kg/t cyanide and 2 kg/t lime. At intervals of 4, 8, 24, 48 hours a 20 ml sample was removed, filtered, and sampled for Au and Ag analysis. 10 ml was titrated for cyanide content and the sample pH recorded. 25 ml of 1 kg/t cyanide was readded to the bottle for makeup. At the end of the test period, the remaining bottle contents were filtered via a pressure filter, the total volume collected, measured, and sampled for analysis. The filter cake was washed with 500 ml of water, measured and sampled for analysis. Filter cake was wet weighed, dried for dry weight, and then screened and assayed at certain size fractions.

Phase 1 tests indicate that material classified by Pan American as Silica Gris is amenable to leaching and recoverable from feeder zone depths. Argillic material (Silica Argilica) exhibited poor leaching kinetics, though near-surface argillic material leached well due to possible oxidation of pyrite (sulphide) in the material. Overall the samples tested by Pan American were of a lower grade than the samples tested by Minera Calipuy, lending confidence to the overall general leachability of Pico Machay ore.

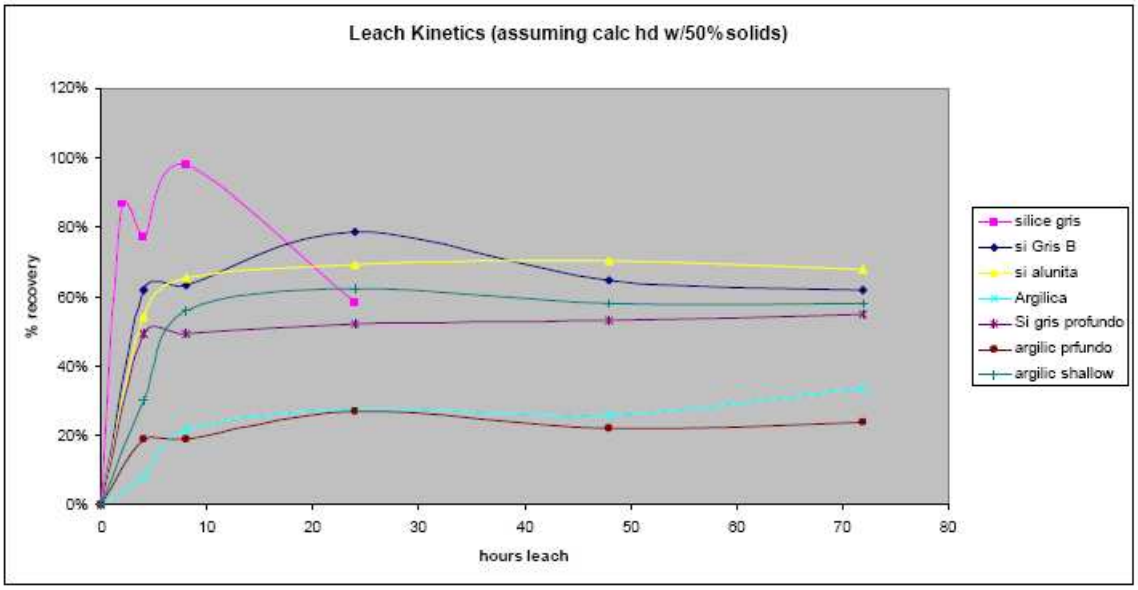

Figure 28. Phase 1 leaching kinetics (7 samples).

Second Phase Metallurgy Tests

Eleven RC cutting composites were selected for a second phase of bottle roll cyanidation testing identical to that carried out for Phase 1. The samples were selected on the basis of argillic clay content or type and the oxidation (i.e. oxide, mixed, sulphide) state.

Argillic material containing sulphides exhibits very poor leaching kinetics, whilst similar oxide material responded favourably to leaching. Findings also show that Au leaching occurs rapidly, with Au recovery substantially completed within the first 2 hours.

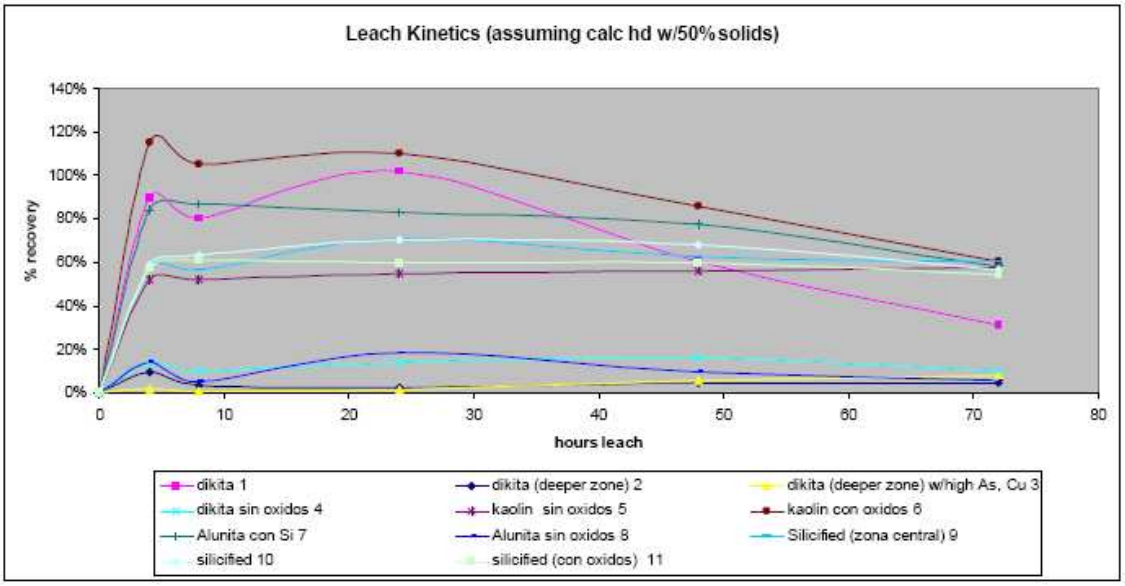

Figure 29. Phase 2 leaching kinetics (11 samples).

In some cases the soluble gold content decreased over the term of the leach test (downward slope of leach curve from left to right) that is possibly due to the following factor(s):

1. The presence of carbonaceous material;

2. The absorption of cyanide complexes within the clay minerals;

3. The precipitation of gold cyanide into other chemical forms;

Third Phase Metallurgy Tests

A total of twelve RC cutting composites were submitted by Pan American to Nevada-based McClelland Laboratories for bottle roll testing. Each composite consisted of a 15 m interval from a total of seven RC drill holes. The composites were reported to represent mixed oxide and sulphide ore types from Pico Machay.

Bottle roll cyanidation tests were conducted on each composite at the "as received" (nominal 1.7 mm) feed size to obtain preliminary information concerning amenability to heap leach cyanidation treatment. Overall test results showed that composites containing relatively low levels (<2%) of sulphides (mixed and/or oxide ore) were amenable to cyanidation treatment; composites containing higher levels (>3.5%) of sulphides (sulphide ore) were not amenable to cyanidation treatment. There was a general tendency observed of decreasing Au recovery with increasing sample depth.

Pico Machay Low Sulfide (<2%) Composites

		Au					
		g/mt ore			Solubility,	gAg/mt ore	
Composite I.D.	$S^{=}$, %	Predicted	Assay	CN Sol	%[1)]	Assay	CN Sol
15620	0.71	1.390	1.56	1.38	88.5	3	1.93
15621	0.67	0.432	0.37	0.32	86.5	1	1.07
15624	1.81	1.243	1.47	1.09	74.1	6	4.14
15625	0.99	1.724	1.75	1.46	83.4	4	2.90
15627	1.51	0.307	0.32	0.29	90.6	<1	0.28
15629	0.95	1.749	2.01	1.71	85.1	5	5.37

1) Based on cyanide soluble (CN Sol) values divided by assay values.

Pico Machay High Sulfide (>3.5%) Composites

		Au					
		g/mt ore			Solubility,	gAg/mt ore	
Composite I.D.	$S^{=}$, %	Predicted	Assay	CN Sol	%[1)]	Assay	CN Sol
15622	4.22	0.258	0.25	0.12	48.0	<1	0.16
15623	3.58	0.182	0.19	<0.03	<15.8	1	0.24
15626	3.79	0.250	0.26	0.12	46.2	<1	0.46
15628	4.29	0.185	0.19	0.06	31.6	1	0.08
15630	3.72	0.465	0.49	0.24	49.0	1	0.92
15631	4.48	0.354	0.35	0.05	14.3	<1	0.29

1) Based on cyanide soluble (CN Sol) values divided by assay values.

Table 15. Assays and cyanide solubility results.

Au recovery from the six composites containing <2% sulphide sulphur ranged from 61.1% to 83.2% and averaged 74.6% with gold recovery substantially complete within 24 hours. Au recovery from the six composites containing >3.5% sulphide sulphur ranged from 0.0% to 43.5% and averaged 25.2% with Au recovery substantially complete in 6 hours of leaching.

Reagent requirements were variable. Cyanide consumption for the composites that contained relatively low (<2%) and relatively high (>3.5%) sulphide sulphur averaged 0.45 kg/t and 0.76 kg/t respectively and generally were less than 1.0 kg/t ore. Lime required for pH control was moderate to high, ranging from 2.4 to 9.6 kg/t and averaging 5.4 kg/t.

Pico Machay Low Sulfide (<2%) RC Cuttings Composites, As Received Feed Size

Composite No:	15620	15621	15624	15625	15627	15629
Drill Hole:	ABS-242	ABS-109	ABS-228	ABS-105	ABS-123	ABS-223
Interval, m:	49-64	4.5-19.5	37-52	32.5-47.5	10.5-25.5	14.5-29.5
Ore Zone:	Mixed Ox.	Mixed Ox.	N/A	Mixed Ox.	Mixed Ox.	Mixed Ox.
$S^{=}$, %:	0.71	0.67	1.81	0.99	1.51	0.95
Feed Size, % -1.7mm:	63.5	51.4	59.2	51.2	59.1	60.0
Metallurgical Results						
Extraction: % of total Au	CY-1	CY-2	CY-5	CY-6	CY-8	CY-10
in 2 hours	45.1	48.6	33.3	52.7	66.2	52.2
in 6 hours	62.8	60.0	42.7	66.9	70.5	62.4
in 24 hours	75.2	63.8	52.5	75.6	73.5	72.2
in 48 hours	80.8	67.5	58.0	79.2	73.5	74.8
in 72 hours	83.2	67.3	60.1	80.1	73.5	77.3
in 96 hours	83.2	70.3	61.1	81.5	73.5	78.1
Extracted, gAu/mt ore	1.19	0.26	0.77	1.37	0.25	1.39
Tail Assay, gAu/mt[1)]	0.24	0.11	0.49	0.31	0.09	0.39
Calculated Head, gAu/mt ore	1.43	0.37	1.26	1.68	0.34	1.78
Predicted Head, gAu/mt ore	1.39	0.43	1.24	1.72	0.31	1.75
Assayed Head, gAu/mt ore	1.56	0.37	1.47	1.75	0.32	2.01
Ag Extraction, % of total	25.0	>33.3	35.5	41.0	>16.7	45.0
Extracted, gAg/mt ore	0.9	0.5	2.2	1.6	0.2	2.7
Tail Assay, gAg/mt[1)]	2.7	<1.0	4.0	2.3	<1.0	3.3
Calculated Head, gAg/mt ore	3.6	<1.5	6.2	3.9	<1.2	6.0
NaCN Consumed, kg/mt ore	0.97	0.30	0.59	0.37	0.17	0.29
Lime Added, kg/mt ore	2.4	5.8	4.1	6.7	3.7	9.6
Final Solution pH	11.1	10.9	11	10.9	10.9	10.5
Natural pH (40% Solids)	6.1	3.7	2.3	2.4	4.2	3.4

1) Average of triplicate tail assays.
2) Provided by Pan American Silver personnel

Table 16. Overall metallurgical results - low sulphide (<2%) RC cutting composites.

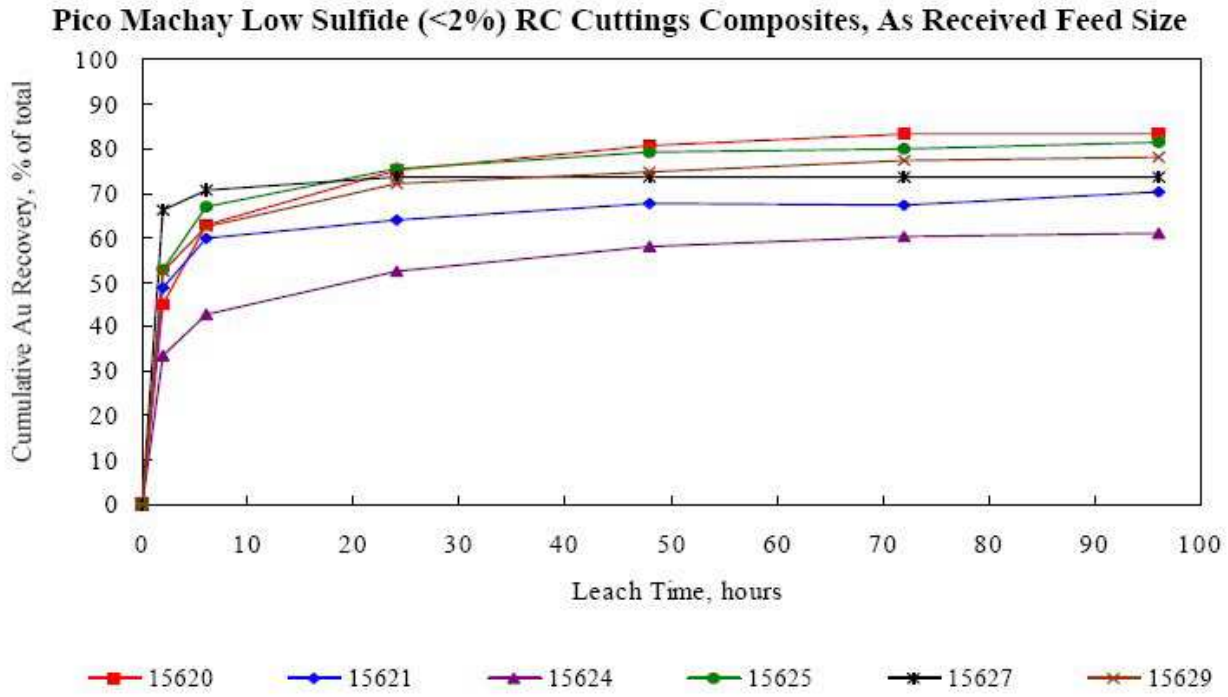

Figure 30. leaching kinetics - low sulphide (<2%) RC cutting composites.

Pico Machay High Sulfide (>3.5%) RC Cuttings Composites, As Received Feed Size

Composite No:	15622	15623	15626	15628	15630	15631
Drill Hole:	ABS-109	ABS-109	ABS-105	ABS-123	ABS-102	ABS-102
Interval, m:	102-117	130.5-145.5	98.5-113.5	46.5-61.5	22-37	92.5-107.5
Ore Zone:	Sulf.	Sulf.	Sulf.	Sulf.	Mixed Ox.	Sulf.
$S^{=}$, %:	4.22	3.58	3.79	4.29	3.72	4.48
Feed Size, % -1.7mm:	57.9	19.8	64.5	58.6	73.6	92.2
Metallurgical Results						
Extraction: % of total Au	CY-3	CY-4	CY-7	CY-9	CY-11	CY-12
in 2 hours	18.8	N/A	18.0	25.0	32.6	8.6
in 6 hours	26.2	N/A	19.2	35.0	38.0	9.1
in 24 hours	27.9	N/A	20.4	37.2	40.4	14.0
in 48 hours	29.5	N/A	21.6	39.3	42.8	14.8
in 72 hours	31.1	N/A	22.8	41.5	45.2	15.7
in 96 hours	33.3	<5.6	24.0	33.3	43.5	17.1
Extracted, gAu/mt ore	0.08	<0.01	0.06	0.06	0.20	0.06
Tail Assay, gAu/mt[1)]	0.16	0.17	0.19	0.12	0.26	0.29
Calculated Head, gAu/mt ore	0.24	<0.18	0.25	0.18	0.46	0.35
Predicted Head, gAu/mt ore	0.26	0.18	0.25	0.19	0.47	0.35
Assayed Head, gAu/mt ore	0.25	0.19	0.26	0.19	0.49	0.35
Ag Extraction, % of total	23.1	23.1	28.6	>16.7	>52.4	>28.6
Extracted, gAg/mt ore	0.3	0.3	0.4	0.2	1.1	0.4
Tail Assay, gAg/mt[1)]	1.0	1.0	1.0	<1.0	<1.0	<1.0
Calculated Head, gAg/mt ore	1.3	1.3	1.4	<1.2	<2.1	<1.4
NaCN Consumed, kg/mt ore	0.96	0.60	0.53	0.98	0.46	1.04
Lime Added, kg/mt ore	4.2	6.5	4.9	4.4	6.4	6.2
Final Solution pH	11.1	11.2	10.8	11.0	10.8	10.7
Natural pH (40% Solids)	3.2	5.6	4.8	3.2	2.9	2.7

1) Average of triplicate tail assays.
2) Provided by Pan American Silver personnel

Table 17. Overall metallurgical results - high sulphide (>3.5%) RC cutting composites.

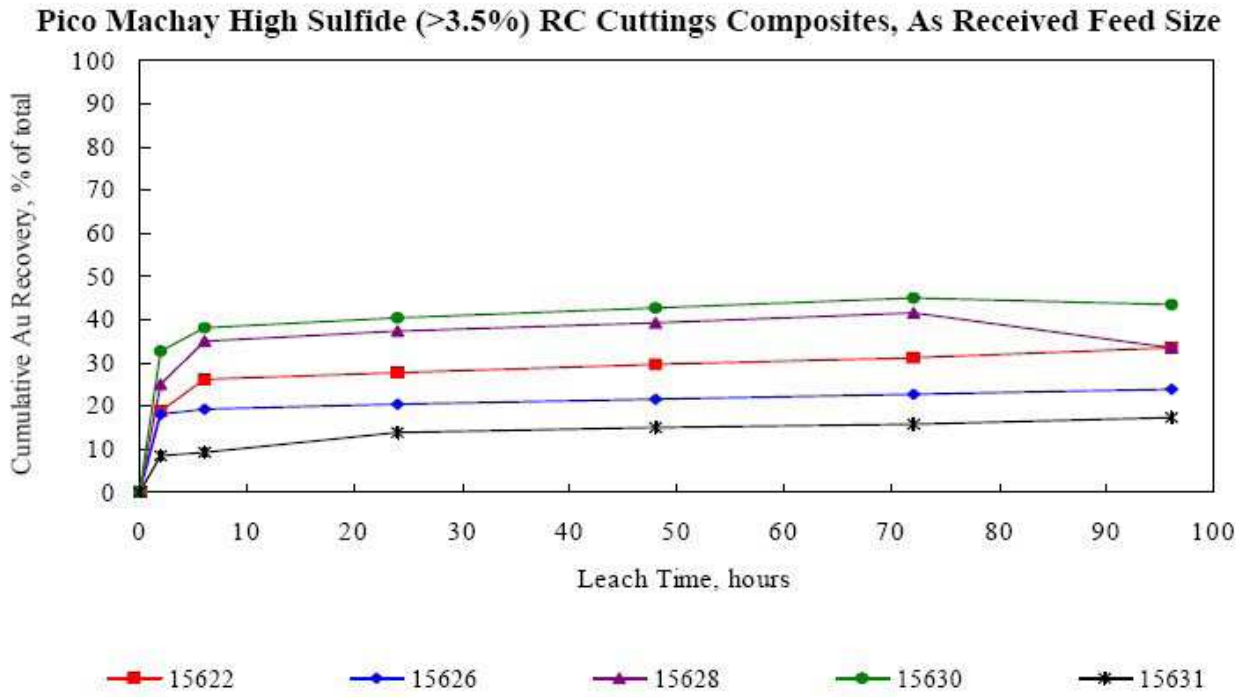

Figure 31. Phase 1 leaching kinetics- high sulphide (>3.5%) RC cutting composites.

Mineral Resource Estimates

No mineral reserve estimates have been determined for the Pico Machay Gold Project.

Non-diluted, Measured and Indicated Resources totalled 10.6 million tonnes at an average grade of 0.78 g/t (270,000 ounces). All of the Measured and Indicated Resources were in Zone C – the Main Zone.

Non-diluted, Inferred Mineral Resources totalled 23.9 million tonnes at an average grade of 0.58 g/t (450,000 ounces).

Most (73% of tonnes and 81% of gold) of the Measured and Indicated Resources, resided in the Mixed (fully or partly oxidised) Zone. In contrast, the majority (68% of tonnes and 67% of gold) of the Inferred Mineral Resources were in the Sulphide Zone. Au in the Mixed Zone is amenable to cyanide leaching, whereas gold in the Sulphide Zone is not.

Approximately 85% of the tonnes and gold resided in the Main Zone.

Resource Category		Tonnes	Average Grade (g/t)	Specific ravity	Ounces
Measured					
	Mixed	3,600,000	1.03	2.31	120,000
	Non-Oxidised	1,100,000	0.53	2.31	20,000
	Sub-Total Measured	**4,700,000**	**0.91**	**2.31**	**140,000**
Indicated					
	Mixed	4,100,000	0.75	2.31	100,000
	Non-Oxidised	1,800,000	0.51	2.31	30,000
	Sub-Total Indicated	**5,900,000**	**0.67**	**2.31**	**130,000**
Measured and Indicated					
	Mixed	7,700,000	0.88	2.31	220,000
	Non-Oxidised	2,900,000	0.52	2.31	50,000
	Sub-Total Meas + Ind	**10,600,000**	**0.78**	**2.31**	**270,000**
Inferred					

Mixed	7,700,000	0.61	2.31	150,000
Non-Oxidised	16,200,000	0.57	2.31	300,000
Sub-Total Inferred	**23,900,000**	**0.58**	**2.31**	**450,000**

Notes:

1. A block cut-off grade of 0.3 g/t was used.
2. Non-diluted.
3. Au in the Mixed Zone is amenable to cyanide leaching, whereas gold in the Sulphide Zone is not.

Effect of Technical Issues on Mineral Resources

In the previous mineral resource estimate, tests from the Oxide Zone showed an average (n=3) gold recovery of 90.8% (min.=86.1%; max.=100%) and tests from the Mixed Zone showed an average (n=8) gold recovery of 88.0% (min.=73.3%; max.=93.4%). Tests from the Sulphide Zone showed an average (n=5) gold recovery of 28.4% (min.=1.5%; max.=59.0%).

The cyanide bottle roll leach tests suggest that gold recovery from the Oxide Zone and Mixed Zone should be especially high (>88%). On the basis of these tests and subject to further metallurgical testing, this material is likely to leach readily and be conducive to a low capital, low cost, cyanide heap leach operation. Typically, heap leach recovery rates are in the 60-70% range, whereas a vat leaching (carbon-in-pulp or carbon-in-leach) recovery rates can approach those obtained using the cyanide bottle roll tests.

Au within the non-oxidised zone, however, would appear to be refractory and assuming that it does not contain high levels of carbon would require oxidation in an autoclave in order to safely separate the sulphide prior to being introduced into the cyanide heap leach circuit.

Alternatively, gravity and flotation methods could be used to produce gold concentrates, which could be shipped direction to smelters or further refined on site. The operating and capital costs of this method are higher than heap leaching, but higher overall recovery values often more than offset the higher costs.

Adjacent Properties

Since the early 1980's, there were numerous new discoveries of epithermal gold deposits within the Pacific Rim Basin and during the 1990's many junior and major mining companies concentrated their exploration efforts on exploring younger volcanic rocks along the Pacific Rim in South America (i.e. Peru, Chile, Ecuador). Positive changes to Peru's mining laws in the 1990's attracted several international mining companies and as a result, numerous new and significant gold mines have made Peru South America's largest gold producer and fourth in the world. Notable successes include Barrick Gold Corporation's Pierina and Alto Chicama high sulphidation deposits in Peru, and the Yanacocha high sulphidation gold deposit owned in part by Newmont Mining Corporation.

Yanacocha, Latin America's largest gold mine, commenced commercial operation in late 1993 and as of 2004 was producing nearly 3 million ounces of gold annually at a total cash cost of US$135 per ounce. In 1998 Barrick Gold Corporation reached commercial production at Pierina and in 2004 produced 645,874 ounces of gold at a total cash cost of US$106 per ounce. Production in 2005 is expected to be between 635,000 and 645,000 ounces of gold at an expected average total cash cost of between $115 and $125 per ounce. Both the Yanacocha and Pierina mines are hosted by the highly prospective Tertiary Period Calipuy Formation volcanic rocks which thought to be equivalent in age and geological environment to the Tertiary volcanic rocks that host the Pico Machay gold deposit.

Deposit Name	Country	Classification
Yanacocha	Peru	high sulphidation
Pierina	Peru	high sulphidation
El Indio	Chile	high sulphidation
El Peñon	Chile	adularia–sericite / low sulphidation

Deposit Name	Country	Classification
Valadero	Argentina	high sulphidation
Lepanto	Philippines	high sulphidation
Ladolarn	Lihir – Papua New Guinea	adularia–sericite / low sulphidation
McLaughlin	USA	adularia–sericite / low sulphidation

Table 18. Summary of significant epithermal gold deposits in the Pacific Rim.

Deposit Name	Mineral Belt (North to South)	Tonnes ($x10^6$)	Au (g/t)	Contained Au ($x10^6$ ounces)
Sipan	Yanacocha Epithermal Gold Belt	21	1.2	0.8
Yanacocha	Yanacocha Epithermal Gold Belt	540	0.95	32.5
La Zanja	Yanacocha Epithermal Gold Belt	17	0.9	0.5
Alto chicama	Yanacocha Epithermal Gold Belt	160	1.4	9.1
Pierina	Pierina Ephithermal Gold Belt	112	2.0	8.0
Quicay	Pierina Ephithermal Gold Belt	10	1.6	0.5
Rescatada (Arasi)	Southern Peru Epithermal Au-Ag Belt	16	1.1	0.8
Aruntani	Southern Peru Epithermal Au-Ag Belt	52	1.2	2.0

Table 19. Summary of high sulphidation gold mines and their related mineral belts in Peru.

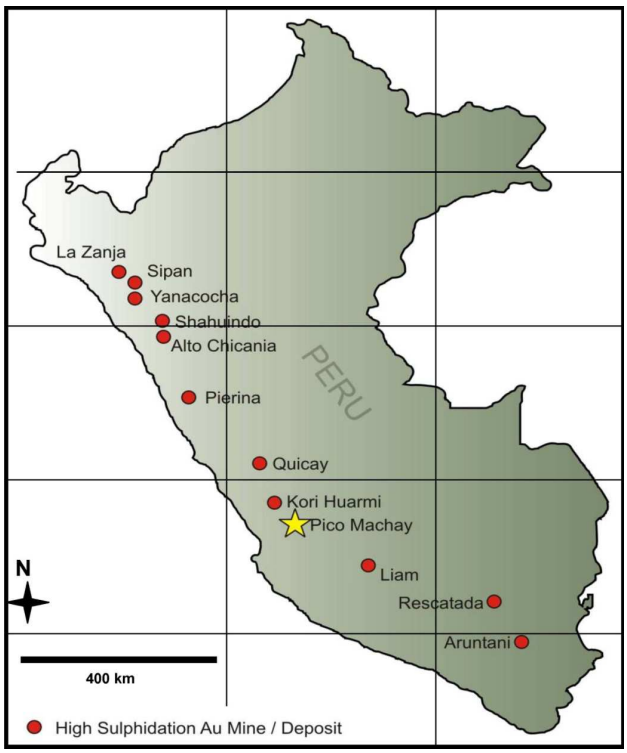

Figure 32. Locations of mining operations and significant prospects in Peru (schematic).

Adjacent Properties and Mining Districts

Several major and junior mining and exploration companies, along with a number of private companies hold title to mineral concessions within the region surrounding the Pico Machay Gold Project. Many of these concessions are prospective for epithermal high sulphidation gold mineralization and cover geology that is similar to that found on the Pico Machay Gold Project.

Exploration Activity

Although little information is available about some of the larger mineral concession blocks in the area, several mining and exploration companies are working in the immediate region of the Pico Machay Gold Project. The majority of mineral concessions staked to date are located over satellite (Landsat TM) colour anomalies generally consisting of clay and iron oxide alteration. Compañia de Minas Buenaventura ("Minas Buenaventura") controls most of the ground north and south of the Huachacolpa Mining District. Minas Buenaventura have been active in the exploration of extensions to existing veins and in the discovery of new vein systems in the district. In addition, Minas Buenaventura had a joint venture with Newcrest Mining Australia in the late 1990's, exploring for porphyry Cu-Au and epithermal high sulphidation gold systems in and around the prominent volcanic centres in the Huachacolpa Mining District.

In addition to Minas Buenaventura, both Barrick Gold Corporation and Newmont Mining Corporation have been actively exploring mineral concessions in the area for epithermal high sulphidation gold systems, similar to that of the Pico Machay gold deposit.

Geologix Explorations Inc. currently has an exploration project located about 25 kilometres northwest of the Pico Machay Gold Project. This prospect, referred to as the Huacullo, is a high sulphidation system associated with a volcanic centre of intermediate to felsic composition.

Extensive zones of gold-bearing argillic and siliceous alteration have been found through reconnaissance mapping and sampling. To date, two large anomalous (gold) areas have been identified. The larger anomaly covers about 1.2 km^2 and the smaller anomaly is about 400 metres by 800 meters in area. Twenty-one percent of the samples reported by Geologix contain greater than 0.10 g/t Au (up to 3.15 g/t Au) and 315 g/t Ag. The samples also define significant trace element anomalies typical of high sulphidation systems.

Huachacolpa District

The Huachacolpa Mining District is located about 23 kilometres east of the Pico Machay Gold Project and is one of the principal mining districts in south-central Peru. The geology of the area consists of andesite lava flows pyroclastic rocks, and intrusive and subvolcanic rocks ranging from andesite to dacite.

There are three principal mines in the area; the Recuperada, Huachacolpa, and Caudalosa. All three mines are owned by Minas Buenaventura, Peru's largest publicly traded precious metals company. The mines exploit epithermal silver-zinc-lead-gold veins. Mining operations at the Recuperada Mine were temporarily suspended in March 2001 and site reclamation began. However, increases in metal prices resulted in resumption of exploration efforts on the Esperanza vein in April 2004.

To date, exploration and development at these mines has produced reserves of 110,555 dry short tons, at a grade of 8.31 oz/t Ag, 3.03% Pb, and 5.35% Zn. Further increases in reserves may be possible, depending on the results of exploration in the Esperanza 2001 vein between levels 4680 and 4520 and in the Camucha vein at level 520. As of 2001, combined reserves for the Caudalosa and Huachacolpa mines was 220,000 tons, grading 135 g/t Ag, 5.94% Zn, and 4.96% Pb.

Castrovirreyna District

The Castrovirreyna Mining District is located about 18 kilometres south of the Pico Machay Gold Project, occurring at an elevation of ~4,500 meters above sea level. The geology of the Castrovirreyna District consists of Tertiary andesite flows and volcaniclastics rocks, and andesite to dacite intrusive and subvolcanic rocks.

This district contains high grade silver and base metal veins that were first exploited on a major level during Colonial times. Individual ore shoots have been reported to contain as much as 2,000 oz/t AG but the average grade for veins in this district is about 100 to 200 oz/t Ag, 3% Pb, and 4% Zn. Historically, this district has produced over 100,000,000 ounces of Ag, with abundant Pb, Zn and lesser Cu.

There are two principal mines in the district - the Caudalosa Grande and the San Genaro – both owned by Castrovirreyna Compañia Minera S.A.. The Caudalosa Grande plant was closed in 1998, and the San Genaro plant currently produces about 1.5 million ounces of Ag year.

Interpretation and Conclusions

The Pico Machay Gold Project is a high-sulphidation epithermal Au deposit similar to other deposits found in the South American Andes (Yanacocha and Pierina, Peru). Drilling, trenching and surface sampling since 2005 has expanded the previous resource estimate. In the current resource estimate, one Main Zone and nine minor mineralised zones were outlined, where non-diluted, Measured + Indicated Resources totaled 10.7 million tonnes at an average grade of 0.78 g/t (266,000 ounces). All of the Measured and Indicated Resources were in the Main Zone. Non-diluted, Inferred Resources totalled 24.0 million tonnes at an average grade of 0.58 g/t (447,000 ounces). Approximately 85 % of the tonnes and Au resided in the main zone. The zones had an east-west strike and an average dip of 25° south. The strike length was 1,200 metres and maximum depth was approximately 250 metres. The main zone was outlined along a strike length of 1,200 metres and to a depth of approximately 250 metres. To advance Pico Machay to the development stage, a scoping study and infill drilling is required to enable calculation of Mineral Reserves and condemnation drilling is required to prepare sites for future infrastructure development. As well, additional density measurements are required and down hole surveys are recommended for data accuracy purposes.

In addition to the Pico Machay Gold Project, mapping by Aquiline identified structural and alteration controls on the distribution of mineralization which assisted in the recognition of nine near-deposit exploration targets. The mapping focussed on describing alteration mineral assemblages, textures and styles of alteration to assist in understanding the mineralized system. Eight categories of alteration were defined and the typical zoned pattern characteristic of high sulphidation systems was observed. Structural mapping identified flat structures concentrated in narrow zones that may have acted as conduits for mineralized fluids as well as brecciated zones up to 400 m length and 150 m width that are believed to represent the host rock for the nearby Pico Machay Gold Project. The mapping was followed by a re-interpretation of geology from previous workers. The most notable difference as a result of the recent mapping is the lack of evidence of the Astobamba Fm. volcanic package containing pyroclastics, lavas and agglomerates. The host of the central portion of the deposit is now interpreted as large andesitic subvolcanic stock (PMS) that has been intruded by felsic porphyry. Based on the results of mapping and the subsequent re-interpretation of the geology, nine near-deposit target zones have been identified for exploration drilling and/or condemnation drilling.

Recommendations

The Pico Machay Gold Project represents an advanced stage exploration project with a calculated non-diluted Measured + Indicated Resources totalling 10.6 million tonnes at an average grade of 0.78 g/t (270,000 ounces). There are several recommendations required to advance the project and produce a mineral reserve calculation.

1. Further [SG] work should be conducted. The work could be carried out in house with independent check sampling. 150 samples from the mineralised zones should be sufficient for a first pass, with 10% being verified independently. An objective of the work should be to determine if there is a difference in SG values between oxidation levels or alteration types.

2. Downhole surveys should be performed on all future drill holes. Once completed, downhole surveys should also be conducted on a selection of existing "open" holes. An sample size of ten holes will be sufficient to verify the drill hole database. The purpose of the down hole surveys is to verify the location of mineralized intersections and increase the level of accuracy of data used in the resource and future reserve estimates.

3. A scoping study should be conducted to identify Mineral Reserves. This work would aid in targeting areas for fill-in drilling. The product of this work would be a NI 43-101 compliant Mineral Reserve report.

4. In order to complete a scoping study, condemnation drilling of future sites of infrastructure is required, and in-fill drilling sufficient to allow the calculations of mineral reserves is required.

5. A formal QA/QC program for samples and logging should also be established and followed for all Mineral Reserve work.

In addition to advancing the project status to Mineral Reserve, work is also required to advance the geologic understanding of the property in order to better identify future exploration targets. These recommendations are aimed at organising existing data and applying the re-interpreted geologic interpretation to the existing database.

1. The systematic recoding of alteration and mineralization for all available RC drill cuttings should be completed and entered into the project database. The updated database should then be used to generate new drill sections and longitudinal sections to assist in near deposit target generation and future resource / reserve calculations.

2. Exploration drilling on the identified near-deposit target areas should be conducted. Targets should be cross-referenced with re-drawn sections and the updated database. Nine target areas, named "A" – "I" have already been identified through the recent mapping and re-interpretation program. In total, 32 drill holes are proposed (790 m) to test near deposit exploration targets and assist in the condemnation drill program.

Zone	DDH	Metres
A	2	60
B	2	60
C	2	60
C	4	75
C	2	75
D	2	60
E	4	75
F	4	75
G	4	100
H	4	75
I	2	75
TOTAL	32	790

3. Drilling of non-tested concessions currently under license should be conducted to evaluate these claims as part of the near-deposit exploration programs. This work will also provide greater understanding of the core area by defining limits to the system and map in regional scale structures that may have affected the core zone, but are now obscured by alteration.

Proposed Budget

The budget proposed below is for project advancement and near deposit exploration as discussed in the recommendations. The near deposit exploration program consists of an estimate for 32 drill holes totalling 790 metres.

SG Work		
Equipment		$1,000.00
Labour (2 weeks)		
	Technicians	$5,000.00
	Helpers	$2,500.00
Independent Measurements		$200.00
Analysis and Reporting		$1,500.00
Contingency (20%)		$2,000.00
Subtotal		$12,200.00
Downhole Surveys		
Equipment Rental		$2,000.00
Labour (2 weeks)		
	Technician	$2,500.00
	Helper	$1,250.00
Analysis and Reporting		$1,000.00
Contingency (20%)		$1,400.00
Subtotal		$8,150.00
Scoping Study /Reserve Estimate		
Data		
	Mining	$6,000.00
	Processing	$6,000.00
Pit Design		
	Optimisation	$3,600.00
	Haul Road Design	$2,400.00
	Scheduling	$2,400.00
	Economic Model	$6,000.00
Reserve Report (43-101 Compliant)		$20,000.00
Contingency (20%)		$9,280.00
Subtotal		$55,680.00
Exploration Drilling		
32 Drill Holes - 790 metres		$98,750.00
Labour analysis and reporting in-house geologists	AQI	
Contingency (20%)		$15,800.00
Subtotal		$114,550.00
Subtotal Project Advancement		**$76,030.00**
Subtotal Exploration		**$114,550.00**
TOTAL		**$190,580.00**

USE OF PROCEEDS

The estimated net proceeds to the Company from the Offering are estimated to be $● after deducting the Agents' commission of $● and the estimated expenses of the Offering of $●.

The net proceeds of the Offering will be used to fund at least US$10.5 million of the US$21 million cash portion of the purchase price. The Company may elect to pay greater than US$10.5 million of the cash portion of the purchase price if sufficient proceeds are raised from the Offering. (See "Proposed Acquisition of Pico Machay Gold Project".) The balance of the net proceeds will be used for working capital and other general corporate purposes.

While the Company intends to spend the proceeds of the Offering as stated above, there may be circumstances where, for sound business reasons, a re-allocation of funds may be necessary. See "Risk Factors".

DESCRIPTION OF THE SECURITIES BEING DISTRIBUTED

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value, of which there are currently 48,755,569 Common Shares outstanding. Each Common Share entitles the holder thereof (each a "Shareholder") to receive notice of any meetings of shareholders of the Company and to attend and cast one vote per Common Share at all such meetings. Shareholders do not have cumulative voting rights with respect to the election of directors and accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election. Shareholders have the right to an equal share in any dividend paid by the Company, if any, as and when declared by the board of directors at its discretion from funds legally available therefore and, the right to an equal share in the distribution of the surplus assets of the Company on its liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

CONSOLIDATED CAPITALIZATION

On the Closing Date, the Company will have 48,755,569 Common Shares issued and outstanding and 5,867,983 Common Shares issuable under outstanding options, warrants and other convertible securities. On the Acquisition Closing Date the Company will have ● Common Shares issued and outstanding.

PRIOR SALES

No Common Shares, or securities convertible into Common Shares (other than upon the exercise of director, officer and employee options and such options themselves), have been issued by the Company 12 months prior to date of this Prospectus, except as set out in the following table.

Date of Sale	Description of Transaction	Aggregate Number and Type of Securities Issued	Issue/Exercise Price Per Security
May 18, 2011	Acquisition	1,000,000 Common Shares	$1.33
March 22, 2011	Private Placement	3,125,000 flow-through Common Shares	$1.60
March 22, 2011	Agent's Fee	187,500 Common Share purchase options	$1.60
December 13, 2010	Compensation	1,180,000 Common Share purchase options	$0.70
December 2, 2010	Private Placement	1,161,930 flow-through Common Shares	$0.70
December 2, 2010	Private Placement	580,965 Common Share purchase warrants	$1.00
December 2, 2010	Private Placement	4,845,536 Common Shares	$0.55
December 2, 2010	Private Placement	2,422,768 Common Share purchase warrants	$0.70
December 2, 2010	Agents' Fee	140,100 Common Shares	$0.55
June 30, 2010	Acquisition (property)	205,065 Common Shares	$0.67
September 30, 2010	Acquisition	20,000 Common Shares	$0.43

TRADING PRICE AND VOLUME

The Common Shares are listed and posted for trading on the TSX under the trading symbol "TML". The table below sets forth the high and low trading prices and volume for the Company's Common Shares traded through the TSX on a monthly basis for the periods indicated. The closing price of the Common Shares on the TSX on August 3, 2011 (the last trading day before the date hereof) was $1.24.

	Price Range and Trading Volume		
	High	**Low**	**Volume**
August 1, 2011 to August 3, 2011	1.24	1.02	224,082
July, 2011	1.28	1.07	1,251,904
June 2011	1.51	1.15	1,151,525
May 2011	1.54	1.26	1,685,102
April 2011	1.80	1.38	2,236,466
March 2011	1.67	1.15	2,207,658
February 2011	1.65	1.20	1,662,418
January 2011	1.49	1.01	2,973,534
December 2010	1.40	0.56	3,883,677
November 2010	0.62	0.43	3,456,424
October 2010	0.73	0.54	1,385,678
September 2010	0.62	0.32	1,676,508
August 2010	0.35	0.27	563,541

PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement between the Company and the Agents, the Company has appointed the Agents as its agents to offer the Common Shares for sale to the public, either directly or through authorized sub-agents, on a best efforts basis in the Qualifying Jurisdictions, subject to compliance with all necessary legal requirements and the terms and conditions of the Agency Agreement.

The Common Shares are being sold at an Offering Price of $● per Common Share. The Offering Price was negotiated between the Company and the Agents in the context of prevailing market conditions. The Agency Agreement provides that the closing of this Offering will occur on August 25, 2011 or such later date as the Company and the Agents may agree.

The Agency Agreement provides for payment by the Company to the Agents a fee equal to 6% of the gross proceeds raised in the Offering for various services rendered to the Company in connection with the Offering. The Company has also agreed to issue to the Agents Broker Warrants, which entitle the Agents to purchase an aggregate number of Common Shares equal to 6% of the number of Common Shares sold in the Offering at the Offering Price at any time until 5:00 p.m., Toronto time, on the second anniversary of the Closing Date. This Prospectus also qualifies the distribution of the Broker Warrants. No additional fee has been or will be paid to the Agents in connection with any issue of Common Shares upon the exercise of the Broker Warrants.

While the Agents have agreed to use their best efforts to sell the Common Shares, the Agents are not obliged to purchase any Common Shares which are not sold.

Pursuant to the Agency Agreement, the Company will not, directly or indirectly, sell, issue or announce the issuance of, or enter into any agreement to sell or issue, any securities of the Company, without the prior consent of the Agents, such consent not to be unreasonably withheld, for a period of 120 days following the execution of the Agency Agreement, other than: (a) pursuant to the Offering; (b) pursuant to the Pico Machay Acquisition; (c) the grant of options pursuant to and in accordance with the Company's employee stock option plan; (d) upon conversion Broker Warrants issued pursuant to the Offering; (e) pursuant to share issuance obligations under existing mineral property

agreements; (f) pursuant to binding agreements under which the Company is required to do so and which have been disclosed to the Agents; or (g) to satisfy existing instruments issued at the date hereof.

Pursuant to policies of certain Canadian securities regulatory authorities, the Agents may not, throughout the period of distribution under the Offering, bid for or purchase Common Shares for their own account or for accounts over which they exercise control or discretion. The foregoing restriction is subject to certain exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in or raising the price of the Common Shares. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules for Canadian marketplaces administered by Market Regulation Services Inc. relating to market stabilization and passive market making activities, and a bid or purchase made for or on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing, the Agents may over-allot or effect transactions which stabilize or maintain the market price of the Company's Common Shares at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

The Company has agreed to indemnify the Agents against certain liabilities and expenses, including liabilities under applicable securities legislation in certain circumstances, or to contribute to payments the Agents may have to make in respect thereof.

The Company has applied to list the Common Shares qualified for distribution under this Prospectus, as well as the Common Shares issuable upon exercise of the Broker Warrants (as defined herein), on the TSX. Listing will be subject to the Company fulfilling all of the requirements of the TSX.

Subscriptions for Common Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

Registration of interests in and transfers of the Common Shares will be made only through non-certified interests issued under the Book-Entry Only System. Non-certified interests representing the aggregate Common Shares subscribed for under the Offering will be recorded in the name of CDS or its nominee, on the register of the Company maintained by the Escrow Agent on the Closing Date. Unless the book-entry only system is terminated, and except in certain other limited circumstances, owners of beneficial interests in Common Shares shall not receive a certificate for Common Shares. Beneficial interests in the Common Shares will generally be represented solely through the book-entry only system and such interests will be evidenced by customer confirmations of purchase from the Agents.

The Common Shares have not been and will not be registered under the U.S. Securities Act or applicable state securities laws, and may not be offered, sold or delivered, directly or indirectly, in the United States, except in transactions exempt from the registration requirements of the U.S. Securities Act and all applicable state securities laws. The Agents have agreed that, except as permitted by the Agency Agreement and as expressly permitted by applicable United States federal and state securities laws, they will not offer or sell any of the Common Shares in the United States. The Agency Agreement permits the Agents to offer the Common Shares outside the United States for sale directly by the Company in compliance with Regulation S under the U.S. Securities Act. The Agency Agreement also permits the Agents, through their respective U.S. registered broker-dealer affiliates, to offer the Common Shares in the United States for sale directly by the Company to persons that are "accredited investors," as such term is defined in Rule 501(a) of Regulation D under the U.S. Securities Act, in compliance with Rule 506 of Regulation D under the U.S. Securities Act and applicable state securities laws. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of the Common Shares in the United States. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Common Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act, unless such offer or sale is made pursuant to an exemption from registration under the U.S. Securities Act.

The Common Shares offered and sold in the United States will be "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act. Certificates representing any Common Shares that are offered, sold or issued in the United States will bear a legend to the effect that the securities represented thereby are not registered under the U.S. Securities Act or any applicable state securities laws and may only be offered, sold, pledged or otherwise transferred pursuant to certain exemptions from the registration requirements of the U.S. Securities Act and any applicable state securities laws.

Terms used and not defined in the three preceding paragraphs shall have the meanings ascribed thereto by Regulation S under the U.S. Securities Act.

Except as disclosed in this Prospectus, the Company has not made nor will it make any payments in cash, securities or other consideration to a promoter, finder or any other person or company in connection with this Offering. The directors, officers and other insiders of the Company may participate in this Offering.

RISK FACTORS

The Company and the Common Shares should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this Prospectus, including all documents incorporated by reference, including without limitation, the risk factors set forth in the Company's AIF, prior to making an investment in the Company. In addition to the other information presented in this Prospectus, the following risk factors should be given special consideration when evaluating an investment in any of the Company's securities.

Risks Related to the Company and the Mineral Exploration and Mining Industry

The Company's operations are exposed to various levels of political, economic and other risks and uncertainties. Further, the Company plans to operate in other foreign jurisdictions such as Peru in the future.

Some of the Company's mineral interests are currently located in Peru. Regardless of recent progress in restructuring its political institutions and revitalizing its economy, Peru's history since the mid-1980s has been one of political and economic instability under both democratically elected and dictatorial governments. These governments frequently have intervened in the national economy and social structure, including periodically imposing various controls, the effects of which have been to restrict the ability of both domestic and foreign companies to freely operate. The Company's current and future mineral exploration and mining activities in Peru are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to, higher tax rates, higher royalty rates, terrorism, hostage taking, military repression, extreme fluctuations in currency exchange rates, high rates of inflation, political and labour unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licences, permits and contracts, illegal mining on the Company's properties, changes in taxation policies, restrictions on foreign exchange and repatriation, changing political conditions, fluctuations in currency exchange rates, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. There has been a significant level of social unrest in Peru in recent years resulting from a number of factors, including a high rate of unemployment. Protestors have targeted foreign firms in the mining sector in recent years. There can be no assurance that future social unrest will not have an adverse impact on the Company's operations.

The Company's exploration and development activities may be affected by changes in government, political instability and the nature of various government regulations relating to the mining industry, Peru's fiscal regime has historically been favourable to the mining industry and has been relatively stable over the past 10 years. There can be no assurance that the Peruvian government will not increase tax and royalty rates for mining companies operating in Peru. In addition, labour in Peru is customarily unionized and there are risks that labour unrest or wage agreements may impact operations. The Company cannot predict the government's positions on royalty rates, foreign investment, mining concessions, land tenure, environmental regulation or taxation. A change in government positions on these issues could adversely affect the Company's business and/or its holdings, assets and operations in Peru. Any changes in regulations or shifts in political conditions are beyond the control of the Company. The Company's operations in Peru will entail significant governmental, economic, social, medical and other risk factors common to all developing countries. The status of Peru as a developing country may also make it more difficult for the Company to obtain any required financing because of the investment risks associated with it.

The Company's operations in Peru may be adversely affected by economic uncertainty characteristic of developing countries. Operations, including the Pico Machay Gold Project, may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, currency remittance, income

taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and safety factors. Any such changes could have a material adverse effect on the Company's results of operations and financial condition.

Peru has no limitation on profit or capital remittances to foreign shareholders provided that all applicable Peruvian taxes have been paid. However, there can be no assurance that additional restrictions on the repatriation of earnings in Peru will not be imposed in the future.

The Company faces numerous exploration, development and operating risks.

Although the Company's activities are directed towards the development of mineral deposits, its activities also include the exploration for and development of mineral deposits.

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices that are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

There is no certainty that the expenditures made by the Company towards the search and evaluation of mineral deposits will result in discoveries of commercial quantities of ore.

To date, the Company is considered to be a development stage company and has not recorded any revenues from its activities nor has the Company commenced commercial production on any of its properties. There can be no assurance that the Company will commence commercial production, generate any revenues or that the assumed levels of expenses will prove to be accurate.

The development of the Company's properties, including the Pico Machay Gold Project, will require the commitment of substantial resources to complete exploration programs and to bring the properties into commercial production. There can be no assurance that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The amounts and timing of expenditures will depend on the progress of ongoing development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, the Company's acquisition of additional properties and other factors, some of which are beyond the Company's control.

If mineral resource estimates are not accurate, production may be less than estimated which would adversely affect the Company's financial condition and result of operations.

Mineral resource estimates are imprecise and depend on geological analysis based partly on statistical inferences drawn from drilling, and assumptions about operating costs and metal prices, all of which may prove unreliable. The Company cannot be certain that the resource estimates are accurate and cannot guarantee that it will recover the indicated quantities of metals if commercial production is commenced. Future production could differ dramatically from such estimates for the following reasons: mineralization or formations at the properties could be different from those predicted by drilling, sampling and similar examinations; declines in the market price of gold may render the mining of some or all of the resources uneconomic; and the grade of ore may vary significantly from time to time and the Company cannot give any assurances that any particular quantity of metal will be recovered from the resources including the Pico Machay Gold Project.

The occurrence of any of these events may cause the Company to adjust the resource estimates or change its mining plans, which could negatively affect the Company's financial condition and results of operation.

The Company's exploration and development properties may not be successful and are highly speculative in nature.

Exploration for gold is highly speculative in nature. The Company's exploration activities in Peru involve many risks, and success in exploration is dependent upon a number of factors including, but not limited to, quality of management, quality and availability of geological expertise and the availability of exploration capital. The Company cannot give any assurance that its current or future exploration efforts will result in the discovery of a mineral reserve or new or additional mineral resources, the expansion of current resources or the conversion of mineral resources to mineral reserves.

As well, mineral deposits, even though discovered, may be insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Company may be affected by additional factors which are beyond the control of the Company and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment and other factors, which may make a mineral deposit unprofitable to exploit.

The Company's mineral properties are in the exploration stage and are without known bodies of mineral reserves, although a mineral resource has been established on the Goliath Gold Project, Lara Polymetallic Project and on the Pico Machay Gold Project. Development of such Projects will only follow upon obtaining satisfactory exploration results and the completion of feasibility or other economic studies.

The risks and hazards associated with mining and processing may increase costs and reduce profitability in the future.

Mining and processing operations involve many risks and hazards, including among others: environmental hazards; mining and industrial accidents; metallurgical and other processing problems; unusual and unexpected rock formations; flooding and periodic interruptions due to inclement or hazardous weather conditions or other acts of nature; mechanical equipment and facility performance problems; and unavailability of materials, equipment and personnel. These risks may result in: damage to, or destruction of, the Company's properties or production facilities; personal injury or death; environmental damage; delays in mining; increased production costs; asset write downs; monetary losses; and legal liability.

The Company cannot be certain that its insurance will cover the risks associated with mining or that it will be able to obtain or maintain insurance to cover these risks at affordable premiums. The Company might also become subject to liability for pollution or other hazards against which it cannot insure or against which the Company may elect not to insure because of premium costs or other reasons. Losses from such events may increase costs and decrease profitability.

The Company may experience higher costs and lower revenues than estimated due to unexpected problems and delays.

New mining operations often experience unexpected problems during the development and start-up phases and such problems can result in substantial delays in reaching commercial production. Delays in construction or reaching commercial production in connection with the Company's development of its mines would increase its operating costs and delay revenue growth.

Future exploration at the Company's projects or elsewhere may not result in increased mineral resources.

This Prospectus contains estimated mineral resources, including on the Pico Machay Gold Project, based on the assumptions and qualifications set out in the technical reports. The Company intends to upgrade and expand its existing resource base by surface and underground drilling in the immediate vicinity of the presently defined mineral resources. Mineral exploration involves significant risks over a substantial period of time, which even a combination of careful evaluation, experience and knowledge may not eliminate. Even if the Company discovers a valuable deposit of minerals, it may be several years before production is possible and during that time it may become economically unfeasible to produce those minerals. There is no assurance that current or future exploration

programs will result in any new economically viable mining operations or yield new resources to replace and expand current resources.

The Company's vulnerability to changes in metal prices may cause its share price to be volatile and may affect the Company's operations and financial results.

If the Company commences production, the profitability of the Company's operations, including on the Pico Machay Gold Project, will be dependent upon the market price of mineral commodities. Metal prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of mineral commodities has fluctuated widely in recent years and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, reserve calculations and life-of-mine plans using significantly lower metal prices could result in material write-downs of the Company's investment in mining properties and increased amortization, reclamation and closure charges. In addition to adversely affecting the Company's reserve estimates and its financial condition, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

The Company is subject to extensive environmental legislation and the costs of complying with these regulations may be significant. Changes in environmental legislation could increase the costs of complying with applicable regulations and reduce levels of production.

All phases of the Company's operations are subject to environmental regulation. There is no assurance that existing or future environmental regulation will not materially adversely affect the Company's business, financial condition and results of operations.

Environmental legislation relating to land, air and water affects nearly all aspects of the Company's operations. This legislation requires the Company to obtain various operating licenses and also imposes standards and controls on activities relating to exploration, development and production. The cost of obtaining operating licenses and abiding by standards and controls on its activities may be significant. Further, if the Company fails to obtain or maintain such operating licenses or breaches such standards or controls imposed on its activities, it may not be able to continue its operations in its usual manner, or at all, or the Company may be subject to fines or other claims for remediation which may have a material adverse impact on its operations or financial results. While the Company is unaware of any existing material environmental liabilities, it cannot guarantee that no such liabilities currently exist or will occur in the future.

Changes in environmental laws, new information on existing environmental conditions or other events may increase future compliance expenditures or otherwise have a negative effect on the Company's financial condition and results of operations. In addition to existing requirements, it is expected that other environmental regulations will likely be implemented in the future with the objective of further protecting human health and the environment. Some of the issues currently under review by environmental agencies include reducing or stabilizing air emissions, mine reclamation and restoration, and water quality. Other changes in environmental legislation could have a negative effect on production levels, product demand, product quality and methods of production and distribution. The complexity and breadth of these issues make it difficult for the Company to predict their impact. The Company anticipates capital expenditures and operating expenses will increase as a result of compliance with the introduction of new and more stringent environmental regulations. Failure to comply with environmental legislation may result in the issuance of clean up orders, imposition of penalties, liability for related damages and the loss of operating permits. While the Company believes it is in material compliance with existing environmental legislation, it cannot give assurances that it will at all future times be in compliance with all federal and state environmental regulations or that steps to bring the Company into compliance would not have a negative effect on its financial condition and results of operations.

Government approvals and permits are currently, or may in the future be, required in connection with the Company's operations. To the extent such approvals are required and but are not granted, the Company may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties including the Pico Machay Gold Project.

Compliance with current and future government regulations may cause the Company to incur significant costs and slow its growth.

The Company's activities are subject to extensive laws and regulations governing matters relating to occupational health, labour standards, prospecting, exploration, production, exports and taxes. Compliance with these and other laws and regulations could require the Company to make significant capital outlays which may slow its growth by diverting its financial resources. The enactment of new adverse regulations or regulatory requirements or more stringent enforcement of current regulations or regulatory requirements may increase costs, which could have an adverse effect on the Company. The Company cannot give assurances that it will be able to adapt to these regulatory developments on a timely or cost effective basis. Violations of these regulations and regulatory requirements could lead to substantial fines, penalties or other sanctions.

The Company is required to obtain and renew governmental permits and licences in order to conduct mining operations, which is often a costly and time-consuming process.

In the ordinary course of business, the Company will be required to obtain and renew governmental permits and licenses for the operation and expansion of existing operations or for the commencement of new operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process. The duration and success of the Company's efforts to obtain and renew permits and licenses are contingent upon many variables not within its control including the interpretation of applicable requirements implemented by the permitting or licensing authority. The Company may not be able to obtain or renew permits and licenses that are necessary to its operations, including the Pico Machay Gold Project, or the cost to obtain or renew permits and licenses may exceed what the Company expects. Any unexpected delays or costs associated with the permitting and licensing process could delay the development or impede the operation of the Company's projects, including the Pico Machay Gold Project, which could adversely affect the Company's revenues and future growth.

The exploration and development of the Company's properties, including continuing exploration and development projects, and the construction of mining facilities and commencement of mining operations, will require substantial additional financing.

Failure to obtain sufficient financing will result in a delay or indefinite postponement of exploration, development or production on any or all of the Company's properties or even a loss of a property interest. Additional financing may not be available when needed or, if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders. Failure to raise capital when needed would have a material adverse effect on the Company's business, financial condition and results of operations.

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure.

Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

There is no guarantee that title to any of the Company's mineral properties will not be challenged or disputed or that the term of the Company's mineral rights can be extended or renewed.

Title to, and the area of, mineral concessions may be disputed. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to any of its properties, including the Pico Machay Gold Project, will not be challenged or impaired. While the Company intends to take all reasonable steps to maintain title to its mineral properties, there can be no assurance that the Company will be successful in extending or renewing mineral rights on or prior to expiration of their term.

If the Company loses key personnel or is unable to attract and retain additional personnel, the Company's mining operations and prospects could be harmed.

Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, additional key financial, administrative and mining personnel as well as additional operations staff will be required. Although the Company believes it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success. If the Company is not successful in attracting, training and retaining qualified personnel, the efficiency of operations may be affected.

The mining industry is intensely competitive in all of its phases and the Company competes with many companies possessing greater financial and technical resources than itself.

Competition in the precious metals mining industry is primarily for mineral rich properties that can be developed and produced economically; the technical expertise to find, develop, and operate such properties; the labour to operate the properties; and the capital for the purpose of funding such properties. Many competitors not only explore for and mine precious metals, but conduct refining and marketing operations on a global basis. Such competition may result in the Company being unable to acquire desired properties, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations and develop its properties. Existing or future competition in the mining industry could materially adversely affect the Company's prospects for mineral exploration and success in the future.

Terrorism in the area of the Pico Machay Gold Project could adversely impact operations.

The Shining Path group, which has been labelled a terrorist organization by Canada and the United Nations, is active in Huancavelica Province. Over the past two years, they have attacked several military and police targets, resulting in the deaths of dozens of soldiers, police and civilians. They are partially funded through the sale and trafficking of illegal drugs. While it is unlikely that the Shining Path would ever assume permanent control over the Pico Machay Gold Project, they represent an elevated level of risk to the safety of personnel and equipment, particularly if the property is further developed.

Risks Related to the Pico Machay Acquisition

Political risk may reduce the value of the the Company's mineral deposits in Peru.

There is a certain level of political risk involved with any mineral property located in Peru or any developing country. Political risk is difficult to quantify, but mineral deposits in jurisdictions with a greater degree of political risk may be valued at a discount to comparable mineral deposits in jurisdictions with less political risk.

The Company has acquired potential unknown liabilities associated with the Pico Machay Acquisition for which it may not be indemnified.

The Pico Machay Gold Project is being acquired on an "as is, where is" basis and the representations and warranties and indemnities provided by Aquiline in respect of the Pico Machay Gold Project are limited. Consequently, the recourse the Company may have against Aquiline will be limited. Further, there may be liabilities that the Company failed to discover or was unable to quantify in its due diligence. The Company will not be indemnified for some or all of these liabilities.

The Company has provided a full and final release to Pan American and certain of its subsidiaries under the terms of the Acquistion Agreement and no indemnity was obtained by the Company from any party to the Acquisition Agreement.

The Company has undertaken limited independent investigation of potential liabilities. Although the Company is not aware of any potential material liabilities, it is possible that the Company may incur significant costs in the future should any such liability be established. As a result, the Company will have no remedy against any party pursuant to the Acquisition Agreement should any of the representations or warranties provided by Aquiline prove to be false or incorrect or for any other matter related to the Acquisition Agreement.

The Pico Machay Acquisition may not be completed.

The Pico Machay Acquisition is subject to normal commercial risk that the Pico Machay Acquisition may not be completed on the terms negotiated or at all.

Delays in governmental approvals and permits required for the Pico Machay Gold Project may delay operation.

Due to anticipated delays in obtaining certain operational permits, the Company anticipates that transitional arrangements may be required in order that the Pico Machay Acquisition may be completed and that the Company can operate the Pico Machay Gold Project post-Closing. There is no assurance that Peruvian government authorities will consider these transitional arrangements effective to enable the Company to operate the Pico Machay Gold Projects following closing of the Pico Machay Acquisition prior to requisite permits and approvals being issued in the Company's name.

The net proceeds from the Offering may be insufficient to satisfy the cash component of the Pico Machay Acquisition.

The Company may not be able to raise sufficient funds under the Offering which could result in the aggregate of the net proceeds from the Offering being insufficient for the Company to pay the cash component of the Pico Machay Acquisition cost and otherwise complete the Pico Machay Acquisition.

There may be difficulty with the integration of the Pico Machay Gold Project upon completion of the Pico Machay Acquisition.

Upon completion of the Pico Machay Acquisition, the Company will have to hire operations personnel and integrate the Pico Machay Gold Project into its business. The Company will have to retain existing employees at the Pico Machay Gold Project and hire additional operations staff to manage these employees and the overall operation of the Pico Machay Gold Project. The Company may encounter difficulties integrating the Pico Machay Gold Project, including difficulties relating to employee retention, management of union relations, maintenance of financial reporting systems and maintenance of contractor relations. Difficulties in integrating the Pico Machay Gold Project may result in lower than anticipated revenues and higher than anticipated operating costs.

Pan American's substantial holdings of Common Shares could put pressure on the market price of the Common Shares resulting in a decline in such price.

The market price of the Common Shares could fall if large quantities of Common Shares are sold in the public market, or there is the perception in the marketplace that such sales could occur. Following completion of the Offering and the Pico Machay Acquisition, Pan American will hold, directly or indirectly, 11.5 million Common Shares. The Company is only permitted to direct the sale of the Common Shares held by Pan American for the first 24 months following the Closing of the Pico Machay Acquisition in certain circumstances and then only if it decides to sell all Common Shares that it owns. If Pan American determines to sell its Common Shares and decides to sell less than all such Common Shares or if it is more than 24 months after the Acquisition Closing Date, the Company will not be permitted to assist in the sale and any such sales may put downward pressure on the market price of the Common Shares. In addition, any market perception that Pan American desires to sell its Common Shares would likewise put downward pressure on the market price of the Common Shares.

Risks Related to the Offering

The Company's Common Shares may experience price volatility.

There can be no assurance that an active market for the Common Shares will be sustained after the Offering. Securities of mineral resource and mining companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. The price of the Common Shares is also likely to be significantly affected by short-term changes in commodity prices and currency exchange fluctuation. As a result of any of these factors, the market price of the Common Shares at any given point in time may not accurately reflect the long-term value of the Company. Securities class-action litigation often has been brought against companies following periods of volatility in the market price of

their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Further equity financings will result in dilution.

If the Company raises additional funding by issuing additional equity securities, such financing may substantially dilute the interests of shareholders of the Company and reduce the value of their investment.

The Company has broad discretion in the use of the net proceeds from the Offering and may not use the proceeds effectively.

The Company proposes to use the net proceeds from the Offering as described in "Use of Proceeds" and a portion of the net proceeds have not been allocated for a specific use. In allocating the proceeds, the Company will have broad discretion in the application of the proceeds and could spend the proceeds in ways that do not improve the Company's business prospects or enhance the value of the Common Shares. The failure to apply these funds effectively could result in financial losses that could have a material adverse effect on the Company's business, cause the price of the Common Shares to decline and delay the development and productivity of the Company's mining operations.

The Offering is highly speculative and may result in the loss of an investor's entire investment.

An investment in Common Shares is highly speculative and may result in the loss of an investor's entire investment. Only potential investors who are experienced in high risk investments and who can afford to lose their entire investment should consider an investment in the Company.

RELATIONSHIP BETWEEN THE COMPANY AND THE AGENTS

Cormark Securities Inc. was engaged by the Company, on or about January 28, 2011, to act as its financial advisor in connection with the proposed Pico Machay Acquisition. Cormark Securities Inc. will be entitled to receive an advisory fee of $500,000 for performing that service.

As a result of the financial advisory services being performed by Cormark Securities Inc., the Company may be considered to be a "connected issuer" of Cormark Securities Inc. within the meaning of National Instrument 33-105 – Underwriting Conflicts ("NI 33-105"). Canaccord Genuity Corp. is considered to be independent for its role in structuring and pricing the Offering and in the due diligence activities performed by the Agents. Cormark Securities Inc. is not restricted from acting as agent despite it is considered to be a "connected issuer" under NI 33-105.

Cormark Securities Inc. was involved in advising the board of directors of the Company in their decision to distribute the Common Shares and in determining the terms of the Offering. The Offering is being structured as a distribution of Common Shares on the recommendation of the Agents.

The Agents will receive a fee for the Offering equal to 6% of the aggregate proceeds of the Offering as well as their fees for financial advisory services, as set forth above.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Heenan Blaikie LLP, counsel to the Company, and Cassels Brock & Blackwell LLP, counsel for the Agent, the following is a summary, as of the date hereof, of the principal Canadian federal income tax considerations under the Income Tax Act (Canada) (the Tax Act) generally applicable to holders of Common Shares acquired under the Offering who, for the purposes of the Tax Act and at all relevant times, (i) are resident or deemed to be resident solely in Canada, (ii) deal at arm's length and are not affiliated with the Company, and (iii) hold the Common Shares as capital property. Generally Common Shares will be considered to be capital property to a holder provided the holder does not hold the Common Shares in the course of carrying on a business of trading or dealing in Common Shares and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain holders who might not otherwise be considered to hold their Common Shares as capital property may, in

certain circumstances, be entitled to have the Common Shares and all other "Canadian securities" (as defined in the *Tax Act*) owned by such holders, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

Holders meeting all of the foregoing requirements are referred to as a "Holder" or "Holders" in this summary, and this summary only addresses such Holders. This summary is not applicable to (i) a Holder that is a "financial institution" (as defined in the Tax Act for the purposes of the mark-to-market rules"); (ii) a Holder an interest in which would be a "tax shelter investment" (as defined in the Tax Act); (iii) a Holder that that is a "specified financial institution" (as defined in the Tax Act); or (iv) a Holder who makes or has made a functional currency reporting election pursuant to section 261 of the Tax Act. **Any such Holder should consult its own tax advisor with respect to an investment in the Common Shares**.

This summary is based upon the facts set out in this Prospectus, the current provisions of the Tax Act and the regulations thereunder (the "Regulations") in force as of the date hereof, all specific proposals (the "Proposed Amendments") to amend the Tax Act or the Regulations that have been publicly announced by the Minister of Finance (Canada) prior to the date thereof, and counsel's understanding of the current published administrative and assessing practice of the Canada Revenue Agency (the "CRA"). No assurance can be given that the Proposed Amendments will be enacted in their proposed form, if at all. This summary does not take into account or anticipate any other changes to the law, whether by legislative, governmental or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ significantly from the Canadian federal income tax considerations.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder of Common Shares. Consequently, prospective holders should consult their own tax advisors with respect to their particular circumstances. The discussion below is qualified accordingly.

Acquisition of Common Shares on Exchange of Common Shares

The initial cost to a Holder of the Common Share acquired under the Offering will be equal to the amount paid by the Holder to acquire such Common Share. The cost of any such Common Share generally must be averaged with the cost of all other Common Shares held by the Holder as capital property to determine the adjusted cost base of each Common Share.

Disposition of Common Shares

A disposition or deemed disposition by a Holder of a Common Share will generally result in the Holder's realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of the Common Share are greater (or less) than the aggregate of the holder's adjusted cost base of the Common Share and any reasonable costs of disposition. One-half of any capital gain (a "taxable capital gain") must be included in the Holder's income for the taxation year of the disposition, and one-half of any capital loss (an "allowable capital loss") realized in a taxation year may generally be deducted from taxable capital gains realized in the year of disposition. Allowable capital losses in excess of taxable capital gains for a particular year may be deducted from taxable capital gains realized in the three preceding taxation years or any subsequent taxation year, subject to detailed rules and the restrictions contained in the Tax Act in this regard. The amount of any capital loss realized by a Holder that is a corporation on the disposition of Common Shares may be reduced by the amount of any dividends received or deemed to be received by such Holder subject to and in accordance with the provisions of the Tax Act. Similar rules may apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary. A capital gain realized by a Holder who is an individual may give rise to a liability for alternative minimum tax. If a Holder is a "Canadian-controlled private corporation" as defined in the Tax Act, the Holder may be liable to pay an additional refundable tax of **[6⅔]**% on some types of income, including interest and taxable capital gains.

Taxation of Dividends

Dividends received or deemed to be received on Common Shares by a Holder that is an individual (other than certain trusts) will be included in computing the individual's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received by an individual from a taxable Canadian

corporation (as defined in the Tax Act). To the extent that the Company designates a dividend as an "eligible dividend" (within the meaning of the Tax Act) in the prescribed manner, such dividend will be eligible for the enhanced gross-up and dividend tax credit.

Dividends received or deemed to be received on Common Shares by a Holder that is a corporation will be included in computing the Holder's income for the taxation year in which such dividends are received (or deemed to be received) and will generally be deductible in computing the taxable income of the Holder to the extent and in the circumstances provided in the Tax Act. A Holder that is a "private corporation" or a "subject corporation" (each as defined in the Tax Act) may be liable to pay a refundable tax of 33 1/3% on dividends received (or deemed to be received) on the Common Shares to the extent such dividends are deductible in computing the Holder's taxable income.

EXPERTS

The legal matters relating to the securities offered hereby will be passed upon by Heenan Blaikie LLP on behalf of the Company and by Cassels Brock & Blackwell LLP on behalf of the Agents. Partners and associates of each of Heenan Blaikie LLP and Cassels Brock & Blackwell LLP each as a group, beneficially own, directly or indirectly, in the aggregate, less than 1% of the issued and outstanding securities of the Company as of the date of this Prospectus.

Certain information in this Prospectus and the documents incorporated by reference relating to the Company's mineral projects is summarized or extracted from the technical report effective July14, 2011 by Douglas Roy, M.A.Sc., P.Eng., and Doris Fox, M.Sc., P.Geo. of A.C.A. Howe International Limited and entitled "Independent Technical Report and Resource Estimate on the Pico Machay Gold Project, Huancavelica Province, Peru" and the preliminary economic assessment effective July 9, 2010 by Douglas Roy, M.A.Sc., P.Eng., Patrick Hannon, M.A.Sc., P.Eng., Edward Thornton, P.Eng. and Ian Trinder, M.Sc., P.Geo. of A.C.A. Howe International Limited and entitled "Technical Report and Preliminary Economic Assessment on the Goliath Gold Project Kenora Mining Division Northwestern Ontario, Canada for Treasury Metals Incorporated". To the best knowledge of the Company, none of the foregoing persons has any interest in any securities of the Company or its associates or affiliates, nor do they expect to receive or acquire any such interests, and, as at the date hereof, the aforementioned persons beneficially own, directly or indirectly, in the aggregate, less than 1% of the issued and outstanding securities of the Company as of the date of this Prospectus.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces**,** the securities legislation further provides a purchaser with remedies for rescission or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

INDEPENDENT AUDITOR'S CONSENT

We have read the short form prospectus of Treasury Metals Inc. (the "Company") dated August ●, 2011 relating to the issue and sale of ● common shares of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2010 and 2009 and the consolidated statements of operations, defecit, other comprehensive income, changes in shareholders' equity and cash flows for the year ended December 31, 2010. Our report is dated March 21, 2011, except as to Note 16 which is as of March 22, 2011.

●
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
August ●, 2011

INDEPENDENT AUDITOR'S CONSENT

We have read the short form prospectus of Treasury Metals Inc. (the "Company") dated August ●, 2011 qualifying the distribution of up to ● common shares of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the inclusion in the above-mentioned short form prospectus of our report to the board of directors and shareholder of Absolut Resources Inc. on the consolidated balance sheet of Absolut Resources Inc. as at December 31, 2010 and the consolidated statements of loss, comprehensive loss and deficit, cash flows and shareholder's equity for the year then ended. Our report is dated August ●, 2011.

●
Chartered Accountants
Vancouver, British Columbia
August ●, 2011

INDEX TO FINANCIAL STATEMENTS

TREASURY METALS INC. & ABSOLUT RESOURCES INC.
UNAUDITED PROFORMA CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended December 31, 2010	Treasury Metals	Absolut	Pro Forma Adjustments	Note 2	Pro Forma
Revenues					
Royalty income, net	$ 647,232	$ -	$ -		$ 647,232
Loss on sale of investments	(309,166)	-	-		(309,166)
	338,066	-	-		338,066
Expenses					
Administrative, office and shareholder services	582,270	21,046	-		603,316
Exploration expenses	-	228,661	(228,661)	(c)	-
Professional fees	224,817	-	-		224,817
Salary and benefits	37,410	-	-		37,410
Stock-based compensation	800,285	-	-		800,285
Interest expenses	-	-	1,219,680	(d)	1,219,680
Gain on foreign exchange	-	(22,303)	-		(22,303)
Amortization	1,683	70,853	-		72,536
Accretion expense	-	6,320	-		6,320
Write-down of mineral properties	4,001,141	-	-		4,001,141
Write-down of available for sale investments	528,934	-	-		528,934
	6,176,540	304,577	991,019		7,472,136
Loss before income taxes	(5,838,474)	(304,577)	(991,019)		(7,134,070)
Future income tax recovery	1,086,000	-	304,920	(f)	1,390,920
Net loss for the year	$ (4,752,474)	$ (304,577)	$ (686,099)		$ (5,743,150)
Loss per share - Basic and diluted	$ (0.13)	$ (3,045.00)	$ (0.03)		$ (0.09)
Weighted average number of shares outstanding	36,649,035	100	23,999,900		60,649,035

UNAUDITED PROFORMA STATEMENT OF OTHER COMPREHENSIVE LOSS

Year Ended December 31, 2010					
Net loss for the year	$ (4,752,474)	$ (304,577)	$ (686,099)		$ (5,743,150)
Other comprehensive income					
Currency translation adjustment	-	(55,354)	-		(55,354)
Unrealized gain on available for sale investments	1,175,415	-	-		1,175,415
Reclassification of realized loss on available for sale investments to income	309,166	-	-		309,166
Reclassification of unrealized loss on available for sale investments to income upon write-down	528,934	-	-		528,934
Comprehensive loss	$ (2,738,959)	$ (359,931)	$ (686,099)		$ (3,784,989)

TREASURY METALS INC. & ABSOLUT RESOURCES INC.
UNAUDITED PROFORMA BALANCE SHEET

As at March 31, 2011	Treasury Metals	Absolut	Pro Forma Adjustments	Note 2	Pro Forma
Assets					
Current Assets					
Cash and cash equivalents	$ 5,869,145	$ 117,739	$ (11,132,000)	(a)	$ 8,954,884
			14,100,000	(b)	
Accounts receivable and prepaid expenses	585,653	92,358	-		678,011
	6,454,798	210,097	2,968,000		9,632,895
Investments	2,488,876	-	-		2,488,876
Property and equipment	445,258	153,917	-		599,175
Mineral properties and related deferred costs	36,479,080	16,221,392	21,494,687	(a)	74,195,159
Due from Affiliates			(16,009,666)	(e)	-
	-	-	16,009,666	(a)	
	$ 45,868,012	$ 16,585,406	$ 24,462,687		$ 86,916,105
Liabilities					
Current Liabilities					
Accounts payable and accrued liabilities	$ 652,514	$ 112,267	$ -		$ 764,781
Due to Laramide Resources Ltd.	53,754	-	-		53,754
Promissory note payable	-	-	10,164,000	(a)	10,164,000
Current portion of long term debt	29,588	-	-		29,588
Due to related affiliates	-	16,009,666	(16,009,666)	(e)	-
	735,856	16,121,933	(5,845,666)		11,012,123
Long-term debt	263,920	-	-		263,920
Unrenounced flow-through share premium	500,000	-	-		500,000
Provisions	-	196,466	-		196,466
Deferred tax liability	317,338	-	-		317,338
	$ 1,817,114	$ 16,318,399	$ (5,845,666)		$ 12,289,847
Shareholders' Equity					
Capital stock	49,784,575	100	(100)	(a)	79,870,035
			16,475,360	(a)	
			(489,900)	(b)	
			14,100,000	(b)	
Contributed surplus	2,747,200	-	489,900	(b)	3,237,100
Share premium	-	19,056,642	(19,056,642)	(a)	-
Deficit	(8,969,564)	(18,724,564)	18,724,564	(a)	(8,969,564)
Accumulated other comprehensive income (loss)	488,687	(65,171)	65,171	(a)	488,687
	44,050,898	267,007	30,308,353		74,626,258
	$ 45,868,012	$ 16,585,406	$ 24,462,687		$ 86,916,105

TREASURY METALS INC. & ABSOLUT RESOURCES INC.
UNAUDITED PROFORMA INTERIM STATEMENT OF OPERATIONS

Three months ended March 31, 2011	Treasury Metals	Absolut	Pro Forma Adjustments	Note 2	Pro Forma
Revenues					
Royalty income, net	$ 169,300	$ -	$ -		$ 169,300
Gain on sale of investments	87,673	-	-		87,673
	256,973	-	-		256,973
Expenses					
Administration, office and shareholder services	233,680	8,417	-		242,097
Exploration expenses	-	98,321	(98,321)	(c)	-
Professional fees	69,456	-	-		69,456
Salary and benefits	96,307	-	-		96,307
Interest expenses	-	1,482	304,920	(d)	306,402
Stock-based compensation	13,983	-	-		13,983
Gain on foreign exchange	-	(5,347)	-		(5,347)
Amortization	7,045	18,122	-		25,167
	420,471	120,995	206,599		748,065
Loss before income taxes	(163,498)	(120,995)	(206,599)		(491,092)
Income tax recovery (expense)	(29,048)	-	76,230	(f)	47,182
Net loss	$ (192,546)	$ (120,995)	$ (130,369)		$ (443,910)
Loss per share- basic and diluted	$ (0.00)	$ (1,210.00)	$ (0.01)		$ (0.01)
Weighted average number of shares outstanding	$ 43,980,306	$ 100	$ 23,999,900		$ 67,980,306

UNAUDITED PROFORMA STATEMENT OF OTHER COMPREHENSIVE LOSS

Three Months Ended March 31, 2011					
Net loss for the year	$ (192,546)	$ (120,995)	$ (130,369)		$ (443,910)
Other comprehensive income					
Currency translation adjustment	-	(8,968)	-		(8,968)
Unrealized gain on available for sale investments	122,826	-	-		122,826
Reclassification of unrealized loss on available for sale investments to income upon write-down	(87,673)	-	-		(87,673)
Comprehensive loss	$ (157,393)	$ (129,963)	$ (130,369)		$ (417,725)

Treasury Metals Inc. & Absolut Resources Inc.
Notes to the Unaudited Pro Forma Consolidated Financial Statements
As at March 31, 2011 and for period ended March 31, 2011 and the year ended December 31, 2010

1. Basis of Presentation

On May 18, 2011 Treasury Metals Inc. ("Treasury Metals") and Absolut Resources Inc. ("Absolut") announced they had entered into an agreement pursuant to which Treasury Metals made an offer (the "Offer") to acquire all the outstanding common shares of Absolut for a total consideration of USD $38 million to be paid by USD $10.5 million of cash, a promissory note of USD $10.5 million, and the balance through issuance of 11.5 million common shares.

The cash component of the purchase price is to be paid from part of the $15 million gross proceeds of a public placement of 12,500,000 common shares of Treasury Metals at an issue price of $1.20 per share. A 12% commission is to be paid in a mix of cash and broker warrants.

The unaudited pro forma consolidated financial statements are expressed in Canadian dollars and have been prepared by management after giving effect to the acquisition of Absolut through the payment of USD $10.5 million of cash, and a promissory note of USD $10.5 million, and issuance of 11.5 million common shares of Treasury Metals. The transaction is recorded as an asset purchase.

The unaudited pro forma consolidated balance sheet has been presented by combining the March 31, 2011 balance sheet of Treasury Metals and Absolut giving effect to the proposed acquisition of Absolut as if it occurred on March 31, 2011.

The significant accounting policies of Absolut conform in all material respects to those of Treasury Metals or have been adjusted as part of the pro forma adjustments in note 2.

The unaudited pro forma consolidated statement of operations for the three month period ended March 31, 2011 has been presented by combining the statements of operations of Treasury Metals and Absolut for the three month period ended March 31, 2011 giving effect to the acquisition of Absolut as if it had occurred on January 1, 2011.

The unaudited pro forma consolidated financial statements as at, and for the period ending March 31, 2011 have been compiled in compliance with International Financial Reporting Standards applicable to interim financial statements, including IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time adoption of International Financial Reporting Standards" and incorporate the significant accounting policies as set out in the unaudited interim financial statements of Treasury Metals for the period ended March 31, 2011, and should be read in conjunction with the March 31, 2011 unaudited interim consolidated financial statements of Treasury Metals and Absolut.

The unaudited pro forma consolidated statement of operations for the year ended December 31, 2010 has been presented by combining the statements of operations of Treasury Metals and Absolut for the year ended December 31, 2010, giving effect to the acquisition of Absolut as if it had occurred on January 1, 2010.

The unaudited pro forma consolidated statement of operations for the year ended December 31, 2010 have been compiled in accordance with Canadian generally accepted accounting principles and incorporate the significant accounting policies as set out in the audited financial statements of Treasury Metals for the year ended December 31, 2010, and should be read in conjunction with the December 31, 2010 audited consolidated financial statements of Treasury Metals and Absolut.

The unaudited pro forma consolidated financial statements are based on estimates and assumptions set forth in the notes herein. The pro forma consolidated financial statements are being provided solely for information purposes and are not necessarily indicative of the combined results or financial position that might have been achieved for the periods indicated; nor is it necessarily indicative of future results that may occur. The unaudited pro forma consolidated financial statements do not reflect cost savings that may be realized from the elimination of certain expenses. No assurance can be given that any operating cost savings will be realized.

Pro forma adjustments are necessary to reflect the acquisition of Absolut including the issue of Treasury Metals shares and estimated acquisition costs. The pro forma adjustments and allocations of the purchase price will be based on estimates of the fair values of assets acquired and liabilities assumed. The final purchase price allocation will be based on the actual fair value of Absolut's assets and liabilities that exist at the date of completion of the acquisition. Any such variations may change the allocation of the purchase price which could affect the fair value assigned to the assets and liabilities and could result in changes to the unaudited pro forma consolidated financial statements.

2. Pro Forma Assumptions and Adjustments

Treasury Metals made an offer (the "Offer") to acquire 100% of the issued and outstanding shares of Absolut a wholly owned subsidiary of Aquiline Resources Inc. which is a wholly owned subsidiary of Pan American Silver Corp. which is listed on the Toronto Stock Exchange. Under the terms of the Offer, Treasury Metals will, as the purchase consideration for the acquisition of Absolut, pay a total of US $10.5 million of cash, owe US $10.5 million by way of a promissory note, and issue 11.5 million common shares of Treasury Metals to Pan American Silver.

The cash component of the purchase price is to be paid from part of the $15 million gross proceeds of a public placement of 12,500,000 common shares of Treasury Metals at an issue price of $1.20 per share. A 6% cash commission and a 6% broker warrant commission is to be paid on the public offering. The broker warrants will consist of 750,000 warrants issued for a term of twenty four months and having an exercise price of $1.20 each. Based on a strike price of $1.20, a volatility of 100%, a risk free interest rate of 5%, and a term of forty eight months, the Black- Scholes valuation of these warrants is $489,900. In addition, $16,009,666 of debts owing by Absolut to affiliated companies of Pan American Silver will be assigned to Treasury Metals by the affiliated companies.

The promissory note will be payable to Aquiline Resources Inc, will be for an amount up to USD $10.5 million, have a maturity of December 31, 2011 and will bear interest at a rate of 12 % per annum. The note will be secured by a pledge of all the issued and outstanding shares of Absolut. The note can be prepaid at any time provided that in the event repaid before December 31, 2011, interest that would be owing at December 31, 2011 if the note was not repaid, will be owing.

The cost of the acquisition is based on the fair market value of the consideration given, estimated to be USD $39.02 million of which USD $17.0 million is accounted for as an increase in capital stock, USD $10.5 million is accounted for as a short term liability, USD $1.0 million is accounted for as estimated transaction costs, and USD $10.5 million is accounted for as a use of cash.

For pro forma statement purposes, the measurement of the common share purchase consideration is based on the market prices of Treasury common shares over a reasonable period before and after May 19, 2011 which is determined to be USD $1.48. The final common share purchase consideration will be determined based on the market price of Treasury Metals common shares on the date of closing. The purchase considerations are expressed in US dollars and have been converted to Canadian dollars at an exchange rate of .9680 Canadian dollars per US dollar.

The total purchase price has been allocated to the assets acquired and liabilities assumed based on management's estimates of their fair values. Management will carry out a more detailed analysis and changes may be made to the allocation of the excess of the purchase price over the fair value of the net assets acquired. For purposes of the unaudited pro forma consolidated financial statements, the preliminary purchase price allocation below allocates the excess of the purchase price to resource assets. As a result, actual fair values of assets acquired and liabilities assumed and related operating results could differ materially from those reflected in the unaudited pro forma consolidated financial statements.

The following table summarizes the determination of the purchase price and the allocation of this purchase price to the assets and liabilities of Absolut:

Purchase price:	USD	CDN
11.5 million common shares issued in exchange	$ 17,020,000	$ 16,475,360
Cash on closing	$ 10,500,000	$ 10,164,000
Promissory Note	$ 10,500,000	$ 10,164,000
Estimated transaction costs	$ 1,000,000	$ 968,000
	$ 39,020,000	$ 37,771,360

Fair Value of net assets acquired	
Current assets	$ 210,097
Mineral properties and related deferred costs	$ 37,716,079
Property and equipment	$ 153,917
Current Liabilities	$ (112,267)
Non-current liabilities	$ (196,466)
	$ 37,771,360

The following table summarizes the pro forma share capital as at March 31, 2011:

Shares	Number	Share Capital
Common shares issued at March 31, 2011	46,792,806	$ 49,784,575
Share component of purchase	11,500,000	$ 16,475,360
New Equity issued	12,500,000	$ 13,610,100
Pro forma common shares issued at March 31, 2011	70,792,806	$ 79,870,035

The following table summarizes the pro forma warrants outstanding as at March 31, 2011:

Warrants	Number	Warrants
Warrants issued at March 31, 2011	-	-
Broker warrants issued	750,000	$ 489,900
Pro forma warrants issued at March 31, 2011	750,000	$ 489,900

Pro forma Adjustments

(a) To record the asset acquisition of $37,771,360 and eliminate the equity of Absolut.
(b) To record the $15,000,000 public placement net of a 6% cash commission and a 6% broker warrant commission.
(c) To capitalize exploration costs expensed by Absolut in accordance with Treasury Metals' accounting policies.
(d) To record interest expense on the Promissory Note.
(e) To offset amounts due to and from Absolut and Treasury Metals .
(f) To record income tax effect on interest expense adjusted on a pro forma basis.

3. Pro Forma Loss per Share

The pro forma basic and diluted loss per share for the period ended March 31, 2011 has been calculated assuming all shares issued as purchase consideration and for the $15 million public placement were issued on January 1, 2011 and the pro forma basic and diluted loss per share for the year ended December 31, 2010 has been calculated assuming all shares issued as purchase consideration and for the $15 million public placement were issued January 1, 2010.

Consolidated Financial Statements of

Absolut Resources Inc.

Years Ended December 31, 2010 and 2009

(Expressed in Canadian Dollars)

Independent Auditor’s Report

To the Board of Directors and shareholder of Absolut Resources Inc.

We have audited the accompanying consolidated financial statements of Absolut Resources Inc. and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010, and the consolidated statements of loss, comprehensive loss and deficit, cash flows and shareholder’s equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Absolut Resources Inc. and subsidiaries as at December 31, 2010, and the results of their operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(a) in the consolidated financial statements which indicates that the Company's ability to continue as a going concern is dependent on the continued financial support of its shareholder in order to advance the development of its resource property. This condition, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Chartered Accountants
August ●, 2011
Vancouver, British Columbia

Absolut Resources Inc.
(A Development Stage Company)

Consolidated Balance Sheets
(Expressed in Canadian Dollars)
December 31, 2010 and 2009 (UNAUDITED)

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 76,857	$ 77,279
Accounts receivable	163,431	835
Short-term investments	-	9,997
Prepaid expenses and sundry assets	173	7,815
Total Current Assets	**240,461**	**95,926**
Resource properties (Note 4)	21,048,489	21,022,367
Capital assets (Note 5)	176,568	254,955
Total Assets	**$ 21,465,518**	**$ 21,373,248**
Liabilities		
Current Liabilities		
Trade accounts payable	$ 13,254	$ 336,213
Other accounts payable (Note 6)	77,145	6,067,813
Due to related affiliates (Note 11)	16,254,609	9,415,978
Total Current Liabilities	**16,345,008**	**15,820,004**
Future income taxes (Note 10)	4,453,601	4,523,080
Asset retirement obligation (Note 7)	200,460	203,784
Total Liabilities	**20,999,069**	**20,546,868**
Shareholder's Equity (Note 8)		
Common stock	100	100
Contributed surplus	19,056,642	19,056,642
Cumulative translation adjustment (Note 2g)	(60,730)	(5,376)
Deficit	(18,529,563)	(18,224,986)
Total Shareholder's Equity	**466,449**	**826,380**
Total Liabilities & Shareholder's Equity	**$ 21,465,518**	**$ 21,373,248**

***The accompanying Notes are an integral part of these Consolidated Financial Statements.

Absolut Resources Inc.
(A Development Stage Company)

Consolidated Statements of Loss, Comprehensive Loss and Deficit

(Expressed in Canadian Dollars)
For the Years ended December 31, 2010 and 2009

		2010		(UNAUDITED) 2009
Expenses				
Office and general	$	21,046	$	8,746
Exploration expense		228,661		95,695
Accretion expense		6,320		6,526
Depreciation		70,853		962
		326,880		**111,929**
Other expenses (income)				
Interest income		-		(578)
Interest and bank charges		-		895
Gain on foreign exchange		(22,303)		(995,103)
Write-off of mineral properties (Note 4b)		-		3,477,807
Net loss before tax		(304,577)		(2,594,950)
Income taxes (Note 10)		-		-
Net loss for the year		**(304,577)**		**(2,594,950)**
Deficit, beginning of year		(18,224,986)		(15,630,036)
Deficit, end of year	$	(18,529,563)	$	(18,224,986)
Net loss for the year	$	**(304,577)**	**$**	**(2,594,950)**
Currency translation adjustment		(55,354)		(5,376)
Net loss and comprehensive loss for the year	$	**(359,931)**	$	**(2,600,326)**

*****The accompanying Notes are an integral part of these Consolidated Financial Statements.

Absolut Resources Inc.
(A Development Stage Company)

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)
For the Years ended December 31, 2010 and 2009

		2010		(UNAUDITED) 2009
Operating activities				
Net loss for the year	$	(304,577)	$	(2,594,950)
Items not affecting cash				
Depreciation		70,853		962
Write off of mineral property (Note 4b)		-		3,477,807
Accretion expense		6,320		6,526
Unrealized foreign exchange		(22,303)		(995,103)
Changes in non-cash operating working capital:				
Accounts receivable		(160,647)		(833)
Prepaid expenses		6,321		56,054
Trade accounts payable		(303,158)		(116,805)
Other accounts payable		216,924		(525,486)
Cash used in operating activities		**(490,267)**		**(691,828)**
Investing activities				
Proceeds from disposition of short-term investments		9,997		10,120
Expenditures on mining assets		(6,720,289)		(7,461,093)
Cash used in investing activities		**(6,710,292)**		**(7,450,973)**
Financing activities				
Cash proceeds from affiliates (Note 11)		7,200,137		8,145,065
Cash generated by financing activities		**7,200,137**		**8,145,065**
(Decrease) increase in cash and cash equivalents during the year		(422)		2,264
Cash and cash equivalents, beginning of the year		77,279		75,015
Cash and cash equivalents, end of year	$	76,857	$	77,279
Significant non-cash items:				
Accrual for expenditures	**$**	**-**		$6,063,629
Interest and income taxes paid	$	NIL	$	NIL

*****The accompanying Notes are an integral part of these Consolidated Financial Statements.

Absolut Resources Inc.
(A Development Stage Company)

Consolidated Statements of Shareholder's Equity

(Expressed in Canadian Dollars)
For the Years ended December 31, 2010 and 2009

	Number of Shares	Common Stock	Contributed surplus	Cumulative translation adjustment	Deficit	Total shareholder's equity
Balance, December 31, 2008 (Unaudited)	100	$ 100	$ 19,056,642	$ -	$ (15,630,036)	$ 3,426,706
Foreign currency translation adjustment	-	-	-	(5,376)	-	(5,376)
Net loss	-	-	-	-	(2,594,950)	(2,594,950)
Balance, December 31, 2009 (Unaudited)	100	$ 100	$ 19,056,642	$ (5,376)	$ (18,224,986)	$ 826,380
Foreign currency translation adjustment	-	-	-	(55,354)	-	(55,354)
Net loss	-	-	-	-	(304,577)	(304,577)
Balance, December 31, 2010	**100**	**$ 100**	**$ 19,056,642**	**$ (60,730)**	**$ (18,529,563)**	**$ 466,449**

*****The accompanying Notes are an integral part of these Consolidated Financial Statements.

1. NATURE OF OPERATIONS

Absolut Resources Inc. ("the Company" or "Absolut") is a wholly owned subsidiary of Pan American Silver Corp., a publicly traded company (TSX & NASDAQ). The Company is engaged in exploration activities for gold resources in Peru.

The consolidated financial statements have been prepared on the going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. At December 31, 2010 the Company did not have a recurring source of revenue and had limited cash resources in order to advance its resource property. The Company's ability to continue as a going concern is dependent upon continuing financial support of its shareholder through ongoing financing and the continued terms of credit for its payable to related affiliates.

If the going concern basis was not appropriate for these financial statements, then significant adjustments may be necessary to the carrying value of the assets and liabilities, and the reported amount of expenses and classifications used on the consolidated statement of loss, comprehensive loss and deficit.

The head office, principal address and records office of the Company are located at 625 Howe Street, Suite 1500, Vancouver, British Columbia, Canada, V6C 2T6.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

The Company's consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. The US Dollar is the principal currency of measure in all the Company's operations. These statements are presented in Canadian Dollar unless otherwise stated. The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

The consolidated financial statements have been prepared on the going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. At December 31, 2010 the Company did not have a recurring source of revenue and had limited cash resources in order to advance its resource property. The Company's ability to continue as a going concern is dependent upon continuing financial support of its shareholder through ongoing financing and the continued terms of credit for its payable to related affiliates.

If the going concern basis was not appropriate for these financial statements, then significant adjustments may be necessary to the carrying value of the assets and liabilities, the reported amount of expenses and the balance sheet classifications used.

b. Principles of Consolidation

The financial statements consolidate the financial statements of Absolut Resources Inc. and its subsidiaries. All intercompany balances and transactions, including revenues and expenses have been eliminated in full. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passes. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries use the same reporting period and same accounting policies as the Company.

The consolidated financial statements include the subsidiaries of the Company, all of which are presented in the following table:

Subsidiary	Location	Ownership Interest	Status	Projects Owned
Minera Calipuy S.A.C.	Peru	99%	Consolidated	Pico Machay Project
Minera Pico Machay S.A.C.	Peru	100%	Consolidated	Holding Company
Pico Machay Cayman Limited	Cayman Islands	100%	Consolidated	Holding Company

Absolut owns approximately 99% of the issued and outstanding shares of Minera Calipuy S.A.C. ("Minera Calipuy"), a corporation existing under the laws of Peru. Approximately 1% of the issued and outstanding shares of Minera Calipuy are held by an affiliate of Aquiline, Pan American Silver (Peru) S.A.C., a corporation existing under the laws of Peru.

c. Significant Changes in Accounting Policy

The Company did not make significant changes to its accounting policies in 2010.

d. Use of Estimates

The preparation of financial statements in accordance with Canadian GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are: quantities of gold resources; future costs and expenses to produce proven and probable reserves; future commodity prices and foreign currency exchange rates; the future cost of asset retirement obligations; amounts of contingencies; and the fair value of acquired assets and liabilities. Significant items that require estimates as the basis for determining the stated amounts include accounts receivable, mineral property, plant and equipment, investments in non-producing properties, unrealized gains and losses on foreign currency, and income taxes.

e. Financial Instruments

The Company applies as prescribed Section 3855, "Financial Instruments – Recognition and Measurement" of the Canadian Institute of Chartered Accountants' ("CICA") Handbook. CICA Standard 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. Under CICA 3855, all financial assets must be classified as either held-for-trading, available-for-sale, held-to-maturity investments or loans and receivables. All financial liabilities must be classified as held-for-trading, or other financial liabilities. All financial instruments, including derivatives, are included on the Consolidated Balance Sheets and are initially measured at fair value. Subsequent measurements and recognition of changes in fair value depend on the instrument's initial classification. Held-for-trading financial instruments are measured at fair value, and all gains and losses are included in net income (loss) in the period in which they arise. Available- for-sale financial instruments are measured at fair value, determined by published market prices in an active market, except for investments in equity instruments that do not have quoted market prices in an active market, which are measured at cost. Changes in fair value are recorded in other comprehensive income (loss) until the assets are removed from the balance sheet. Investments classified as available-for-sale are written down to fair value through income whenever it is necessary to reflect other-than-temporary impairment. Realized gains and losses on the disposal of available-for-sale securities are recognized in investment and other income. Held-to-maturity investments, loans and receivables, and other financial liabilities are measured at amortized cost. Also, transaction costs related to all financial assets and liabilities are recorded in the acquisition or issue cost and are amortized to income using the effective interest method, unless the financial instrument is classified as held-for-trading, in which case the transaction costs are recognized immediately in net income (loss).

CICA Section 3855 also requires financial and non-financial derivative instruments to be measured at fair value and recorded as either assets or liabilities. Certain derivatives embedded in non-derivative contracts must also be measured at fair value. Any changes in the fair value of recognized derivatives are included in net income (loss) for the period in which they arise, unless specific hedge accounting criteria are met, as defined in CICA Section 3865.

The Company has made the following classifications:

- Short-term and other investments including debt and equity securities are classified as "held-for-trading securities". Changes in the market value of the securities are recorded as other income.

- Accounts receivable are classified as "loans and receivables". They are recorded upon their initial measurement at fair value, which is equal to their cost. At December 31, 2010, the recorded amount approximates fair value.

- Trade and other accounts payable and amounts due to related affiliates are classified as "Other financial liabilities". They are initially measured at their fair value. At December 31, 2010, the recorded amount approximates fair value.

f. Derivatives and Trading Activities

Derivatives may be embedded in other financial instruments (host instruments). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not classified as held-for-trading. These embedded derivatives are measured at fair value on the balance sheet with subsequent changes in fair value recognized in income. The Company has not identified any embedded derivatives that are required to be accounted for separately from the host contract.

g. Foreign currency translation

Effective December 7, 2009, concurrent with the acquisition of the Company by Pan American Silver Corp., the Company determined that the functional currency of the Company had changed to US Dollars. Previously, it had been Canadian Dollars. The Company considers its foreign subsidiaries to be integrated and as a result has translated the financial position and results of operations of its foreign subsidiaries into US Dollars using the temporal method. At the date of change in measurement currency, all assets and liabilities of the Company were translated into US Dollars using the spot rate as at that date.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate during the year. Translation gains and losses are included in operations.

The Company has adopted a presentation currency of Canadian Dollars and as a result, the US Dollar denominated financial statements have been translated into Canadian Dollars using the current rate method as of and for the year ended December 31, 2010.

h. Cash and cash equivalents

Cash includes cash in banks, held primarily in CAD dollars and considered "held-for-trading" and therefore is stated at fair value.

i. Short-term Investments

Short-term investments are classified as "held-for-trading", and consist of highly-liquid securities with original maturities in excess of three months. These securities are initially recorded at fair value, which

upon their initial measurement is equal to their cost. Subsequent measurements and changes in the market value of these debt and equity securities are recorded as changes in other income. Investments are assessed quarterly for potential impairment.

j. Capital Assets

Expenditures for new facilities, new assets or expenditures that extend the useful lives of existing facilities are capitalized. Maintenance, repairs, and renewals are charged to operations. Any gains or losses on disposition of property, plant and equipment are reflected in the statement of operations. Mineral property costs are depreciated using the units-of-production method based upon estimated total proven and probable reserves. Depreciation of plant and equipment is calculated on a straight-line method at rates sufficient to depreciate such costs over the shorter of estimated productive lives of such assets ranging from three to twenty years and the life of the mineral property to which it relates.

k. Resource Properties

Acquisition costs of resource properties, together with direct exploration and development expenses incurred there on, are carried at cost until the respective property is brought into production, at which time these costs are depleted on a unit-of-production method based on proven and probable reserves. If a property is subsequently determined not to be economic, the property and related deferred costs are written down to net realizable value. Costs include cash consideration and the fair market value of shares issued for the acquisition of resource properties and related assets. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment. Other exploration expenses are charged to operations as incurred. The cost of resource properties and related assets abandoned or sold and their related deferred exploration costs are charged to operations in the year of abandonment or disposition.

The Company is in the process of exploring its resource properties and related assets and has not yet determined the reserves available.

Major development expenditures on producing properties incurred to increase production or extend the life of the mine are capitalized while ongoing mining expenditures on producing properties are charged against earnings as incurred. Gains or losses from sales or retirements of assets are included in gain or loss on sale of assets.

l. Asset Impairment

Management reviews the carrying value of resource properties at least quarterly for evidence of impairment. This review is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest, and an assessment of the likely results to be achieved from the performance of further exploration. When the results of this review indicate that a condition of impairment exists, the Company estimates the net recoverable amount of resource properties by reference to the potential for success of further exploration activity and /or the likely proceeds to be received from sale. When carrying values of resource properties are estimated to exceed their net recoverable amounts, an impairment provision is made for the decline in value.

m. Reclamation and Remediation Costs

Estimated future reclamation and remediation costs are based principally on legal and regulatory requirements.

The asset retirement obligation is measured using assumptions for cash outflows such as expected labour costs, allocated overhead and equipment charges, contractor mark-up, and inflation adjustments to determine the total obligation. The sum of all these costs is discounted, using the credit adjusted risk-free interest rate from the time the Company expects to pay the retirement obligation to the time the Company incurs the obligation.

Upon initial recognition of a liability for an asset retirement obligation, the Company capitalizes the asset retirement cost to the related long-lived asset. The Company amortizes this amount to operating expense using the units-of-production method. The Company evaluates the cash flow estimates at the end of each reporting period to determine whether the estimates continue to be appropriate. Upward revisions in the amount of undiscounted cash flows will be discounted using the current credit-adjusted risk-free rate. Downward revisions will be discounted using the credit-adjusted risk-free rate that existed when the original liability was recorded.

n. Income Taxes

The Company computes income taxes in accordance with CICA Handbook Section (3465), "Income Taxes", which requires an asset and liability approach. This results in the recognition of future tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities, as well as operating loss and tax credit carry-forwards, using substantively enacted tax rates in effect in the years in which the differences are expected to reverse. The Company records a valuation allowance against a portion of those future income tax assets except to the extent that management believes they will more likely than not be realized. On business acquisitions, where differences between assigned values and tax bases of assets acquired and liabilities assumed exist, the Company recognizes the future tax assets and liabilities for the tax effects of such differences.

o. Management of Capital

The Company's objective when managing its capital is to maintain its ability to continue as a going concern while at the same time minimizing the cost of capital and maximizing growth of its business and provide returns to its shareholders. The Company's capital structure consists of related affiliate loans and shareholder's equity comprised of common stock, plus contributed surplus less accumulated deficit with a balance of $16.8 million as at December 31, 2010 ($10.2 million, 2009(unaudited)).

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2009.

p. Transition to International Financial Reporting Standards

The Accounting Standards Board (AcSB) adopted International Financial Reporting Standards (IFRS) as Canadian GAAP for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. In addition, the adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ending December 31, 2010, and restatement of the opening balance sheet as at January 1, 2010.

3. FINANCIAL INSTRUMENTS

a. Overview

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are metal price risk, credit risk, foreign exchange rate risk, and liquidity risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

b. Metal Price Risk

Metal price risk is the risk that changes in metal prices will affect the Company's income or the value of its related financial instruments.

The Company will derive its future revenue value from the sale of gold. The Company's future sales are directly dependent on metal prices that have shown extreme volatility and are beyond the Company's control.

Consistent with the Company's mission to provide equity investors with exposure to changes in gold prices, Company policy is not to hedge the price of gold.

The Board of Directors continually assesses the Company's strategy towards its metal exposure, depending on market conditions. At December 31, 2010, the Company had no contracts in place for sales of future production.

c. Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meets its contractual obligations, and arises principally from the Company's receivables. The carrying value of the Company's financial assets represents its maximum credit exposure.

The Company had no material past due trade receivables or other current receivables and the accounts receivable on the Consolidated Balance Sheets is presented with $ NIL provision for doubtful accounts (December 31, 2009 - $ NIL(unaudited)).

The Company invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations.

d. Foreign Exchange Rate Risk

The Company's functional currency is the United States dollars ("USD") however, the Company operates in jurisdictions that utilize other currencies. As a consequence, the financial results of the Company's operations as reported in USD are subject to changes in the value of the USD relative to local currencies. Since the Company's expenditures are denominated in USD and a portion of the Company's operating costs and capital spending are in local currencies, the Company is negatively impacted by strengthening local currencies relative to the USD and positively impacted by the inverse.

As at December 31, 2010, the Company had no forward contracts to purchase foreign currencies. A 10% increase or decrease in the exchange rate of the currencies in the countries that the Company operates relative to the USD would have the effect of a $0.04 million increase or decrease to operating costs on the Company's 2010 statement of operations.

e. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows. The Company has in place a rigorous planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion plans. The Company strives to maintain sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash, and its committed loan facilities.

The Company's commitments have contractual maturities which are summarized below:

PAYMENTS DUE BY PERIOD – 2010					
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Trade accounts payable	$ 13,254	$ 13,254	$ -	$ -	$ -
Other current liabilities	77,145	77,145	-	-	-
Due to related affiliates	16,254,609	16,254,609	-	-	-
Total contractual obligations[(1)]	$ 16,345,008	$ 16,345,008	$ -	$ -	$ -

PAYMENTS DUE BY PERIOD – 2009 (UNAUDITED)					
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Trade Accounts payable	$ 336,213	$ 336,213	$ -	$ -	$ -
Payments due on agreement	6,067,813	6,067,813	-	-	-
Due to related affiliates	9,415,978	9,415,978	-	-	-
Total contractual obligations[(1)]	$ 15,820,004	$ 15,820,004	$ -	$ -	$ -

[1]Amounts above do not include payments related to the Company's anticipated asset retirement obligation (note 7).

f. Fair Value of Financial Instruments

The carrying value of cash and cash equivalents is at fair value, while accounts receivable, trade accounts payable and other accounts payable approximate their fair value due to the relatively short periods to maturity and terms of these financial instruments.

Absolut has designated its cash and cash equivalents and short-term investments as held-for-trading, which are measured at fair value. Due to related parties are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2010, the carrying and fair value amounts of the Company's financial instruments related to cash and cash equivalents and short-term investments, accounts receivable and trade and other accounts payable are the same.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

In 2009 the Accounting Standards Board ("AcSB") amended the Handbook Section 3862, "Financial Instruments – Disclosures", to require enhanced disclosures about the relative reliability of the data, or "inputs", that an entity uses in measuring the fair values of its financial instruments.

The guidance requires that additional disclosure on determining fair value is provided when the volume and level of activity for the asset or liability have significantly decreased and identifying circumstances that indicate when a transaction is not orderly. Also, for investments in debt and equity securities the Company is required to: (i) clarify the interaction of the factors that should be considered when determining whether a debt security is other than temporarily impaired, (ii) provide guidance on the amount of an other-than-temporary impairment recognized for a debt security in earnings and other comprehensive income and (iii) expand the disclosures required for other-than-temporary impairments for debt and equity securities. See tables below for the required disclosure.

This update provided clarification for circumstances in which: (i) a quoted price in an active market for the identical liability is not available, (ii) the liability has a restriction that prevents its transfer, and (iii) the

identical liability is traded as an asset in an active market in which no adjustments to the quoted price of an asset are required.

The updated guidance established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no observable market data).

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by the guidance, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value at December 31, 2010			
(in thousands of U.S. dollars)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash and cash equivalents	$ 76,857	$ 76,857	$ -	$ -

	Fair Value at December 31, 2009 (UNAUDITED)			
(in thousands of US dollars)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash and cash equivalents	$ 77,279	$ 77,279	$ -	$ -
Short-term investments	9,997	9,997	-	-
	$ 87,276	$ 87,276	$ -	$ -

The Company's cash is classified within Level 1 of the fair value hierarchy because it is valued using quoted market prices.

The Company's short-term investments are valued using quoted market prices in active markets and as such are classified within Level 1 of the fair value hierarchy and are primarily money market securities and U.S. Treasury securities. The fair value of the investment securities is calculated as the quoted market price of the investment and in the case of equity securities, the quoted market price multiplied by the quantity of shares held by the Company.

The total amount of unrealized gains on held-for-trading securities for the period was included in other income. This is the result of changes in market values and foreign exchange rates.

4. RESOURCE PROPERTIES

2010	Balance January 1	Additions	Foreign Exchange	Balance December 31
Pico Machay (a)	$ 21,022,367	$ 813,453	$ (787,331)	$ 21,048,489
Total	$ 21,022,367	$ 813,453	$ (787,331)	$ 21,048,489

2009 (UNAUDITED)	Balance January 1	Additions	Write offs	Balance December 31
Pico Machay (a)	$ 3,256,159	$ 17,766,208	$ -	$ 21,022,367
Chaparra (b)	3,200,629	277,178	(3,477,807)	-
Total	$ 6,456,788	$ 18,043,386	$ (3,477,807)	$ 21,022,367

a. Pico Machay (Information prior to 2010 as disclosed in this note is unaudited)

On January 28, 2003, the Company's subsidiary, Minera Calipuy S.A.C., entered into a letter of intent with Monterrico Metals PLC to acquire up to a 75% interest in the Pico Machay gold project in Peru. The Company could earn an initial 60% interest by spending a minimum of US$2 million on exploration over four years, with an option to secure a further 15% interest by spending a cumulative US$4 million on exploration or completing a mine development plan within five years. Furthermore, the Company was obligated to incur US$450,000 before the second anniversary January 27, 2005, and US$1 million before the third anniversary of execution of the letter of intent. In addition to the expenditure based vesting milestones, the Company was required to complete two thousand meters of exploration drilling before the second anniversary of execution of the agreement. As of December 31, 2006, the third anniversary drilling and expenditure requirements had been met and the Company owned a 75% interest in the property.

On July 14, 2009, the Company announced the signing of a letter of intent ("LOI") with Monterrico Metals PLC ("Monterrico"), a subsidiary of Xiamen Zijin Tonguuan Investment Development Co. Ltd., a consortium of three Chinese companies. The LOI allowed Aquiline to acquire all of Monterrico's right, title and interest in and to, certain mining concessions associated with the Pico Machay Gold Project in Peru.

Under the terms of the LOI, the purchase consideration was fixed as US$7.8 million, and paid over two years in cash as follows:

- A deposit of US$200,000 paid upon execution of the LOI on July 15, 2009;
- An initial payment of US$1,000,000 paid upon execution of the Transaction Documents on October 5, 2009, and
- US$6,600,000 paid in installments of US$825,000 in December 2009 and the remaining US$5,775,000 in early 2010 as settlement of a promissory note issued in favour of Intercontinental Resources Inc., a subsidiary of Monterrico Metals PLC. (Note 6)

Upon closing of the sale of Aquiline Resources Inc. to Pan American Silver Corp and pursuant to the agreement, the remaining amount of the note in the amount of US$5,775,000 was paid in early 2010, giving the Company 100% interest in the property. This purchase for the additional 25% was accounted for as an asset acquisition in amount of the $7.8 million purchase price in 2009.

The property has attached to it an underlying 2% Net Smelter Royalty in favour of Intercontinental Resources Inc.

b. Chaparra (Information prior to 2010 as disclosed in this note is unaudited)

On June 8, 2005, Absolut Resources Corp ('Absolut Corp") entered into an exclusive, arms' length, option agreement to acquire a 100% stake in Compañía Minera Colorado S.A.C. ("CMC"). CMC was a privately held Peruvian company that has an option to purchase 100% of the Chaparra high grade gold mesothermal vein system located 45km east of the coastal town of Chala, in the department of Arequipa, Peru. Upon entering into the option agreement, Absolut Corp issued 100,000 shares of common stock to CMC and committed to pay US$600,000 over a four-year period. CMC had an exclusive option with a third party to purchase a 100% stake in the Chaparra project by paying US$1.45 million over a four-year period, and a 1% NSR that is capped at US$1 million.

The option was exercised by Minera Calipuy on September 8, 2005 at which point CMC became a fully owned subsidiary of Minera Calipuy. A second amending agreement was signed on November 10, 2005 between the parties with the result that Mining Royalties and Concessions obligation totalling US$1.5 million of CMC were assumed by Minera Calipuy and US$1.5 million in assets acquired. Not all debts of CMC were assumed by Minera Calipuy. Minera Calipuy is responsible to pay the annual concession fees and the outstanding salaries of the people working at that time.

Subsequent to the amending agreement, proceedings to place CMC into liquidation were completed in November 2006.

As per the purchase option agreement with Chaparra's concession holders, a payment of US $850,000 was required by the Corporation on October 24, 2009 in order to complete the purchase option of these mining rights. The Corporation decided not to exercise the purchase option of the Chaparra concessions and entered into an agreement with the prior owners to return to them the mining concessions surrounding the Chaparra project in return for full settlement of the outstanding debt. Accordingly, the Chaparra project has been written off.

5. CAPITAL ASSETS

2010	Cost	Accumulated Dep.	Net book value
Building and improvements	$ 27,418	$ (10,131)	$ 17,287
Mobile equipment	376,692	(217,411)	159,281
Total	$ 404,110	$ (227,542)	$ 176,568

2009 (UNAUDITED)	Cost	Accumulated Dep.	Net book value
Building and improvements	$ 27,418	$ (9,500)	$ 17,918
Mobile equipment	384,226	(147,189)	237,037
Total	$ 411,644	$ (156,689)	$ 254,955

6. OTHER ACCOUNTS PAYABLE

	2010	2009 (UNAUDITED)
Amount due to Monterrico Metals PLC[(1)]	$ -	$ 6,063,629
Other accounts payable	77,145	4,184
	$ 77,145	$ 6,067,813

[(1)]Amount due to Intercontinental Resources Inc. ("IRI"), a subsidiary of Monterrico Metals PLC for final payment of their interest in Pico Machay. The Note had a two year term, and was payable in eight quarterly installments of US$825,000 each. At the end of 2009, the amounts due were accelerated by the change of control provisions of the note due to the purchase of Aquiline Resources Inc. by Pan American Silver Corp. The Note bore no interest, unless there was a default on any of the payments in which case a default interest rate equal to 5% above the floating LIBOR rate applied to the defaulted payment and the full remaining balance commencing 30 days after the due date of such first defaulted payment. After the first payment default, any subsequent payments were to be made on their due date; if payment was made one day late, then Monterrico had the right to exercise security and accelerate payment of the full balance including interest. The Note was secured by (i) a guarantee from Aquiline Resources Inc. for the Company's obligations under the Note and for certain indemnity obligations of the Company under the Share Purchase Agreement, (ii) a pledge of shares in Pico Machay Cayman Limited; (iii) a pledge of shares in Pico Machay Peru S.A.C.; and (iv) a mining mortgage in the Pico Machay Gold Project. The pledges and the mining mortgage were released when the Note was paid in full in early 2010. (Note 4a)

7. ASSET RETIREMENT OBLIGATION

The total undiscounted amount of estimated cash flows required to settle the Company’s asset retirement obligations is $213,940 (2009 - $213,940(unaudited)) which has been discounted using a rate of 3.3%. Reclamation obligations have been estimated to occur starting after 2013 and should be completed within a year from the start of reclamation.

A summary of the Company's provision for asset retirement obligation and reclamation is presented as follows:

2010	Balance, January 1	Foreign Currency Adjustment	Accretion	Balance, December 31
Pico Machay	$ 203,784	$ (9,644)	$ 6,320	$ 200,460

2009 (UNAUDITED)	Balance, January 1	Foreign Currency Adjustment	Accretion	Balance, December 31
Pico Machay	$ 132,762	$ 64,496	$ 6,526	$ 203,784

8. AUTHORIZED CAPITAL AND STATED CAPITAL

a. Authorized Capital

The authorized capital of Absolut consists of unlimited number of common shares without nominal or par value of which 100 shares is issued and outstanding.

b. Stated Capital

The stated capital of Absolut is $100.

Capital as at December 31 is as follows:

2010 and 2009(UNAUDITED)	Shares	Common Stock	Contributed Surplus	Total
Capital	100	$ 100	$ 19,056,642	$ 19,056,742

c. Effect of the amalgamation

Pursuant to the executed Amalgamation document dated February 6, 2008, Aquline Sub and Absolut Corp (each a "Predecessor Corp") amalgamated into Amalco ("Absolut" or "Absolut Inc.") and continues as one company. All of the shareholders, who owned shares of the capital stock of a Predecessor Corp immediately before the Amalgamation, receive shares of the capital stock of Absolut or Aquiline pursuant to the Amalgamation.

The Predecessor Corp was authorized to issue an unlimited number of common shares without nominal or par value, and an unlimited number of preferred shares. At the time of the amalgamation Absolut Corp had authorized and issued 30,385,247(unaudited) shares and no preferred shares at a total stated capital amount of $19,056,742(unaudited).

9. COMMITMENTS AND CONTINGENCIES

a. Purchase Commitments

The Company had no purchase commitments.

b. Environmental Matters

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company conducts its operations so as to protect the public health and environment and believes its operations are in compliance with applicable laws and regulations in all material respects. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures.

Estimated future reclamation costs are based principally on legal and regulatory requirements. As of December 31, 2010 and December 31, 2009(unaudited), $0.2 million and $0.2 million(unaudited), respectively, were accrued for reclamation costs relating to mineral properties in accordance with CICA Section 3110, "*Asset Retirement Obligations*". See also Note 7.

c. Income Taxes

The Company operates in numerous countries around the world and accordingly it is subject to, and pays annual income taxes under the various income tax regimes in the countries in which it operates. Some of these tax regimes are defined by contractual agreements with the local government, and others are defined by the general corporate income tax laws of the country. The Company has historically filed, and continues to file, all required income tax returns and to pay the taxes reasonably determined to be due. The tax rules and regulations in many countries are highly complex and subject to interpretation. From time to time the Company is subject to a review of its historic income tax filings and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain rules to the Company's business conducted within the country involved.

d. Other Legal Matters

The Company may be subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business activities. Such matters are subject to inherent uncertainties and may be resolved unfavourably to the Company. The Company establishes provisions for matters that are probable and can be reasonably estimated, included within current liabilities, and amounts are not considered material.

In assessing loss contingencies related to legal proceedings pending against the Company, if any, or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

e. Title Risk

Although the Company has taken steps to verify title to properties in which it has an interest, these procedures do not guarantee the Company's title. Property title may be subject to, among other things, unregistered prior agreements or transfers and may be affected by undetected defects.

f. Royalty Agreements

The Company has a royalty agreement on the Pico Machay property entitling the counterparties to the agreements to receive payments per terms of the agreement. Royalty liabilities incurred on acquisitions of properties are netted against mineral property while royalties that become payable upon production are expensed at the time of sale of the production as an offset to gross sales.

10. INCOME TAX

Major items causing the Company's income tax provision to differ from that calculated using the federal statutory rate in Canada of approximately 28.5% (2009 – 30.0%) are as follows:

	2010	2009 (UNAUDITED)
Loss before income taxes	$ (304,577)	$ (2,594,950)
Expected income tax benefit based on statutory rates	(86,804)	(778,485)
Adjustments to benefit resulting from:		
Non-deductible write-down of mineral properties	-	1,043,342
Other non-taxable or non-deductible items	(6,356)	(298,531)
Increase in valuation allowance as a result of current year loss	93,160	33,674
Current tax provision	$ -	$ -
Future tax assets		
Canada resource pools	$ 801,211	$ 716,330
Non-capital losses carried forward	778,502	867,088
Other	96,865	-
	1,676,578	1,583,418
Valuation allowance	(1,676,578)	(1,583,418)
Net future tax assets	$ -	$ -
Future income tax:		
Future tax liabilities	$ 4,453,601	$ 4,523,080

As at December 31, 2010, the Company had $2,811,269 in non-capital losses available for Canadian tax purposes which may be carried forward to reduce taxable income in future years. If not utilized, these losses will expire as follows: 2014 - $369,920, 2015 - $383,717, and $2,055,632 from 2026 to 2029. In addition, the Company has approximately $3.6 million (2009 - $3.7 million) of non-capital losses in Peru, which can be used to reduce taxable income of future years, expiring at various times up to December 31, 2015.

11. RELATED PARTY TRANSACTIONS AND BALANCES

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

As at December 31, 2010, the carrying amounts of the Company's due to related affiliates was $16.3 million (2009: $9.4 million (unaudited)). This entire amount is due to Pan American Silver Corp and its subsidiaries. Included in due to related affiliates are amounts for funding of services and acquisition costs related to advancement of explorations projects. The amounts to be repaid are unsecured and non-interest bearing and due on demand.

Certain administrative costs relating to the Company have been borne by Pan American Silver and are not refunded by the Company.

12. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being mineral exploration. As at December 31, 2010, the Company's mineral properties are located in Peru and its corporate assets are located in Canada. The Company is in the development stage and, accordingly, has no reportable segment revenues during the 2010 and 2009 fiscal years.

A summary of total assets by geographic region is as follows:

2010	Canada	Peru	Total
Current assets	$ 101,331	$ 139,130	$ 240,461
Resource properties and related assets	-	21,048,489	21,048,489
Equipment	-	176,568	176,568
	$ 101,331	$ 21,364,187	$ 21,465,518
2009 (UNAUDITED)			
Current assets	$ 64,803	$ 31,123	$ 95,926
Resource properties and related assets	-	21,022,367	21,022,367
Equipment	1,587	253,368	254,955
	$ 66,390	$ 21,306,858	$ 21,373,248

ABSOLUT RESOURCES INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND NOTES FOR THE QUARTER ENDING MARCH 31, 2011

(Expressed in Canadian Dollars)

Absolut Resources Inc.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited, in Canadian dollars)

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents	**$ 117,739**	$ 76,857	$ 77,279
Short-term investments	**-**	-	9,997
Other receivables	**92,245**	163,431	835
Prepaid expenses	**113**	173	7,815
	210,097	240,461	95,926
Non-current assets			
Resource properties (Note 6)	**16,221,392**	16,525,409	16,499,287
Capital assets (Note 7)	**153,917**	176,568	254,955
Total Assets	**$ 16,585,406**	$ 16,942,438	$ 16,850,168
Liabilities			
Current liabilities			
Trade payables	**$ 27,848**	$ 13,254	$ 336,213
Other payables	**84,419**	77,145	6,067,813
Due to related affiliates (Note 13)	**16,009,666**	16,254,609	9,415,978
	16,121,933	16,345,008	15,820,004
Non-current liabilities			
Provisions (Note 8)	**196,466**	200,460	203,784
Total Liabilities	**16,318,399**	16,545,468	16,023,788
Shareholder's equity			
Capital and reserves			
Issued capital (Note 9)	**100**	100	100
Share premium	**19,056,642**	19,056,642	19,056,642
Cumulative translation adjustment	**(65,171)**	(56,203)	-
Deficit	**(18,724,564)**	(18,603,569)	(18,230,362)
Total Shareholder's Equity	**267,007**	396,970	826,380
Total Liabilities and Shareholder's Equity	**$ 16,585,406**	$ 16,942,438	$ 16,850,168

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Absolut Resources Inc.

Condensed Interim Consolidated Statements of Loss

(Unaudited in Canadian dollars)

	Three months ended March 31,	
	2011	2010
Operating expenses:		
Office and general	**$ (8,417)**	$ -
Exploration expense	**(98,321)**	(139,593)
Depreciation	**(18,122)**	(18,338)
Total operating expenses	**(124,860)**	(157,931)
Interest expense	**(1,482)**	(1,630)
Gain on foreign exchange	**5,347**	-
Net loss before tax	**(120,995)**	(159,561)
Income taxes (Note 12)	**-**	-
Net loss for the period	**$ (120,995)**	$ (159,561)

Condensed Interim Consolidated Statements of Comprehensive Loss

(Unaudited In Canadian dollars)

Net loss for the period	**$ (120,995)**	$ (159,561)
Currency translation adjustment	**(8,968)**	(36,932)
Total comprehensive loss for the period	**$ (129,963)**	$ (196,493)

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Absolut Resources Inc.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited, in Canadian dollars)

	Three months ended March 31,	
	2011	2010
Cash flow from operating activities		
Net loss before taxes	**$ (120,995)**	$ (159,561)
Depreciation	**18,122**	18,338
Accretion on closure and decommissioning provision	**1,482**	1,630
Unrealized gain on foreign exchange	**(5,347)**	-
Operating cash flows before movements in working capital	**(106,738)**	(139,593)
Changes in assets and liabilities:		
Other receivables	**67,660**	825
Prepaid expenses	**55**	(30,978)
Trade payables	**15,152**	(331,054)
Other payables	**9,507**	200,925
Net cash used in operating activities	**(14,364)**	(299,875)
Cash flow from investing activities		
Payments for resource properties and capital assets	**(139,627)**	(6,319,560)
Net cash used in investing activities	**(139,627)**	(6,319,560)
Cash flow from financing activities		
Cash advances from related affiliates	**194,873**	6,593,131
Net cash generated from financing activities	**194,873**	6,593,131
Net increase (decrease) in cash and cash equivalents	**40,882**	(26,304)
Cash and cash equivalents at the beginning of the period	**76,857**	77,279
Cash and cash equivalents at the end of the period	**$ 117,739**	$ 50,975

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Absolut Resources Inc.

Condensed Interim Consolidated Statements of Changes in Shareholder's Equity

For the three months ended March 31, 2011

(Unaudited, in Canadian dollars)

	Attributable to the shareholder of the Company					
	Issued shares	Issued Capital	Share Premium	Cumulative translation adjustment	Deficit	Total equity
Balance, January 1, 2010	100	$ 100	$ 19,056,642	$ -	$ (18,230,362)	$ 826,380
Currency translation adjustment	-	-	-	(36,932)	-	(36,932)
Loss for the period	-	-	-	-	(159,561)	(159,561)
Total comprehensive loss for the period				-	-	(196,493)
Balance, March 31, 2010	100	$ 100	$ 19,056,642	$ (36,932)	$ (18,389,923)	$ 629,887
Currency translation adjustment	-	-	-	(19,271)	-	(19,271)
Loss for the period	-	-	-	-	(213,646)	(213,646)
Total comprehensive loss for the period				-	-	(232,917)
Balance, December 31, 2010	100	$ 100	$19,056,642	$ (56,203)	$ (18,603,569)	$ 396,970
Currency translation adjustment	-	-	-	(8,968)	-	(8,968)
Loss for the period	-	-	-	-	(120,995)	(120,995)
Total comprehensive loss for the period				-	-	(129,963)
Balance, March 31, 2011	100	$ 100	$19,056,642	$ (65,171)	$ (18,724,564)	$ 267,007

See accompanying notes to the unaudited condensed interim consolidated financial statements.

1. Nature of Operations

Absolut Resources Inc. ("the Company" or "Absolut") is a wholly owned subsidiary of Pan American Silver Corp., a publically traded company (TSX & NASDAQ). The Company is engaged in exploration activities for gold resources in Peru.

The condensed interim consolidated financial statements have been prepared on the going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. At March 31, 2011 the Company did not have a recurring source of revenue and had limited cash resources in order to advance its resource property. The Company's ability to continue as a going concern is dependent upon continuing financial support of its shareholder through ongoing financing and the continued terms of credit for its payable to related affiliates.

If the going concern basis was not appropriate for these financial statements, then significant adjustments may be necessary to the carrying value of the assets and liabilities, the reported amount of expenses and classifications used on the Statement of Financial Position.

The head office, principal address and records office of the Company are located at 625 Howe Street, Suite 1500, Vancouver, British Columbia, Canada, V6C 2T6.

The financial statements were approved on August ●, 2011.

2. First Time Adoption of IFRS

These are the Company's first unaudited condensed interim consolidated financial statements prepared in accordance with IAS 34 *'Interim Financial Reporting' ("IAS 34")* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"). The date of transition to IFRS is January 1, 2010.

The Company's IFRS accounting policies are presented in Note 3 and have been applied in preparing the financial statements for the part of the period covered by the Company's first IFRS consolidated annual financial statements for the year ending December 31, 2011, the comparative information and the opening statement of financial position at the date of transition. The Company will ultimately prepare its opening IFRS consolidated statement of financial position and the December 31, 2010 comparative statement of financial position in the consolidated financial statements for the year ending December 31, 2011. These statements may differ from those presented at this time. The effects of the transition to IFRS on the statements of shareholder's equity, loss and comprehensive loss are presented on the next page.

(Note 2 continued)
Condensed Consolidated Statements of Financial Position Reconciliation

		December 31, 2010			As at January 1, 2010 (Date of transition)		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effects of Transition to IFRS	IFRS Opening
Assets							
Current assets							
Cash and cash equivalents		$ 76,857	$ -	$ 76,857	$ 77,279	$ -	$ 77,279
Short-term investments		-	-	-	9,997	-	9,997
Other receivables		163,431	-	163,431	835	-	835
Prepaid expenses		173	-	173	7,815	-	7,815
Total Current Assets		240,461	-	240,461	95,926	-	95,926
Non-current assets							
Resource Properties	i	21,048,489	(4,523,080)	16,525,409	21,022,367	(4,523,080)	16,499,287
Capital assets		176,568	-	176,568	254,955	-	254,955
Total Assets		$ 21,465,518	$ (4,523,080)	$ 16,942,438	$ 21,373,248	$ (4,523,080)	$ 16,850,168
Liabilities							
Current liabilities							
Trade payables		$ 13,254	$ -	$ 13,254	$ 336,213	$ -	$ 336,213
Other payables		77,145	-	77,145	6,067,813	-	6,067,813
Due to related affiliates		16,254,609	-	16,254,609	9,415,978	-	9,415,978
		16,345,008	-	16,345,008	15,820,004	-	15,820,004
Non-current liabilities							
Provisions	ii(b)	-	200,460	200,460	-	203,784	203,784
Deferred tax liabilities	i	4,453,601	(4,453,601)	-	4,523,080	(4,523,080)	-
Asset retirement obligation	ii(b)	200,460	(200,460)	-	203,784	(203,784)	-
Total Liabilities		20,999,069	(4,453,601)	16,545,468	20,546,868	(4,523,080)	16,023,788
Shareholder's Equity							
Capital and reserves							
Issued capital		100	-	100	100	-	100
Share premium		19,056,642	-	19,056,642	19,056,642	-	19,056,642
Cumulative translation adjustment	iii	(60,730)	4,527	(56,203)	(5,376)	5,376	-
Deficit	iii	(18,529,563)	(74,006)	(18,603,569)	(18,224,986)	(5,376)	(18,230,362)
Total Shareholder's Equity		466,449	(69,479)	396,970	826,380	-	826,380
Total Liabilities and Shareholder's Equity		$ 21,465,518	$ (4,523,080)	$ 16,942,438	$ 21,373,248	$ (4,523,080)	$ 16,850,168

(Note 2 continued)

Condensed Consolidated Statements of Loss Reconciliation

		Three months ended March 31, 2010			Year ended December 31, 2010		
	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS	Previous GAAP	Effect of Transition to IFRS	IFRS
Operating expenses:							
Office and general		$ -	$ -	$ -	$ (21,046)	$ -	$ (21,046)
Exploration expense		(139,593)	-	(139,593)	(228,661)	-	(228,661)
Accretion expense	ii(a)	(1,630)	1,630	-	(6,320)	6,320	-
Depreciation		(18,338)	-	(18,338)	(70,853)	-	(70,853)
Total operating expenses		(159,561)	1,630	(157,931)	(326,880)	6,320	(320,560)
Interest expense	ii(a)	-	(1,630)	(1,630)	-	(6,320)	(6,320)
Foreign exchange gain (loss)	i	8,417	(8,417)	-	22,303	(68,629)	(46,326)
Net loss for the period		$ (151,144)	$ (8,417)	$ (159,561)	$ (304,577)	$ (68,629)	$ (373,206)

Condensed Consolidated Statements of Comprehensive Loss Reconciliation

		Three months ended March 31, 2010			Year ended December 31, 2010		
	Notes	Previous GAAP	Effect of Transition to IFRS	IFRS	Previous GAAP	Effect of Transition to IFRS	IFRS
Net loss for the period		$ (151,144)	$ (8,417)	$ (159,561)	$ (304,577)	$ (68,629)	$ (373,206)
Currency translation adjustment	iii	(42,308)	5,376	(36,932)	(55,354)	(849)	(56,203)
Total comprehensive loss for the period		$ (193,452)	$ (3,041)	$ (196,493)	$ (359,931)	$ (69,478)	$ (429,409)

See accompanying notes to these statements.

Reconciliation of Total Equity as at March 31, 2010

		March 31, 2010		
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
Shareholder's Equity				
Capital and reserves				
Issued capital		$ 100	$ -	$ 100
Share premium		19,056,642	-	19,056,642
Cumulative translation adjustment	iii	(42,308)	5,376	(36,932)
Deficit	i	(18,376,130)	(13,793)	(18,389,923)
Total Shareholder's Equity		$ 638,304	$ (8,417)	$ 629,887

(Note 2 continued)

Notes to the IFRS reconciliation above:

i. Deferred taxes

The adjustments to deferred income tax assets and liabilities reflect the tax effects under IAS 12 *Income Taxes*:

Unlike Canadian GAAP, IAS 12 prohibits the recognition of deferred taxes on initial recognition of an asset or liability where the acquisition is not a business combination and neither accounting profit nor taxable profit were affected at the time of the transaction. Accordingly, in its opening statement of financial position, the Company has reversed the deferred income tax liabilities and related foreign exchange impact recognized on acquisition of the Pico Machay property.

ii. Closure and decommissioning costs

(a) A reclassification of the accretion on the closure and decommissioning liability from operating expense to interest expense to comply with the presentation requirements of IAS 37.
(b) A reclassification for change in terminology from Canadian GAAP to IFRS.

iii. Cumulative Translation Adjustment

On January 1, 2010, the date of transition to IFRS, in accordance with and as permitted by IFRS 1, the Company recognized the $5,376 cumulative translation difference from translating the Company's operations as an adjustment in opening deficit.

Consolidated Statement of Cash Flows Reconciliation

The adoption of IFRS has not had an impact on the net cash flows of the Company. The changes made to the statements of financial position and statements of loss have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented.

First time Adoption Exceptions Applied

IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which governs the first-time adoption of IFRS, in general requires accounting policies to be applied retrospectively to determine the opening statement of financial position at the Company's transition date of January 1, 2010. The standard requires certain mandatory exceptions for first-time adopters and the Company has applied the exception for estimates. This exception prohibits the Company from revising estimates made under previous GAAP on the date of transition unless there is objective evidence that the estimates were in error. No errors have been identified in the Company's estimates and no changes have been made to the estimates on the date of transition.

First time Adoption Exemptions Applied

IFRS 1 allows for certain optional exemptions for first time adopters of IFRS. The exemptions that the Company has elected to apply are:

a. *Business Combination Exemption*

IFRS 1 allows a first-time adopter to avoid application of IFRS 3R *Business Combinations* retrospectively to business combinations that occurred before either the date of transition to IFRS or an alternative pre-transition date. The Company applied this exemption to business combinations that occurred prior to January 1, 2010.

b. Borrowing Costs Exemption

This exemption in IFRS 1 allows a first-time adopter to apply the transitional provisions set out in IAS 23 *Borrowing Costs* as at the date of transition to IFRS. IAS 23 requires the capitalization of

borrowing costs related to all qualifying assets. The Company elected to apply IAS 23 *Borrowing* Costs to qualifying assets for which the commencement date for capitalization is on or after January 1, 2010.

c. Cumulative Translation Adjustment
This exemption in IFRS 1 allows a first-time adopter to reset the cumulative translation adjustment account to zero at the date of transition to IFRS as applied in the transitional provisions set out in IAS 21 *The Effects of Changes in Foreign Exchange Rates*. IAS 21 requires the cumulative translation differences for all foreign operations are deemed to be zero at the date of the transition to IFRS. The Company elected to apply this exemption and as a result the cumulative translation adjustment was reset to zero at January 1, 2010.

3. Summary of Significant Accounting Policies

a. Basis of Presentation

IFRS requires entities that adopt IFRS to make an explicit and unreserved statement in their first annual IFRS financial statements of compliance with IFRS. The Company will make this statement when it issues its financial statements for the year ending December 31, 2011. These financial statements have been prepared in accordance with *IAS 34* as issued by the IASB and using accounting policies the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011. Operating results for the three-month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual financial statements for the year ended December 31, 2010, which were prepared in accordance with Canadian GAAP. Note 2 above provides an explanation of the transition to IFRS.

The condensed interim consolidated financial statements are presented in Canadian dollars; the US dollar is the Company's functional currency.

Accounting standards issued and effective January 1, 2013

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. These include:

The Company will be required to adopt IFRS 9 *Financial Instruments*, which replaces the current standard, IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard replaces the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities* and is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.* This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. This standard will not have an impact on the consolidated financial statements.

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

b. Significant Accounting Policies

Principles of Consolidation: The financial statements consolidate the financial statements of Absolut Resources Inc. and its subsidiaries. All intercompany balances and transactions, including revenues and expenses have been eliminated in full. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passes. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries use the same reporting period and same accounting policies as the Company.

The condensed interim consolidated financial statements include the subsidiaries of the Company, all of which are presented in the following table:

Subsidiary	Location	Ownership Interest	Status	Projects Owned
Minera Calipuy S.A.C.	Peru	99%	Consolidated	Pico Machay Project
Minera Pico Machay S.A.C.	Peru	100%	Consolidated	Holding Company
Pico Machay Cayman Limited	Cayman Islands	100%	Consolidated	Holding Company

Business combinations: Upon the acquisition of a business, the acquisition method of accounting is used, whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) acquired on the basis of fair value at the date of acquisition. When the cost of acquisition exceeds the fair values attributable to the Company's share of the identifiable net assets, the difference is treated as goodwill, which is not amortised but is reviewed for impairment annually or more frequently where there is an indication of impairment. If the fair value attributable to the Company's share of the identifiable net assets exceeds the cost of acquisition, the difference is immediately recognized in the statement of loss. Acquisition costs are expensed unless directly attributable to issuance of debt or equity securities.

Control of a business may be achieved in stages. Upon the acquisition of control, any previously held interest is re-measured to fair value at the date control is obtained resulting in a gain or loss upon the acquisition of control. In addition, any change relating to interest previously recognized in other comprehensive income is reclassified to the statement of loss upon the acquisition of control.

Significant Judgments and Estimates: Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements.

The preparation of the financial statements requires that the Company's management use judgement to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant items that require both judgements and estimates are: quantities of proven and probable reserves; the value of mineralized material beyond proven and probable reserves; future costs and expenses to produce proven and probable reserves; future commodity prices and foreign currency exchange rates; the selection of functional currency: the future cost of provision for decommissioning and closure costs; amounts of contingencies; the fair value of acquired assets and liabilities including pre-acquisition contingencies; valuation input assumptions for derivative liabilities; and taxes. Significant items that require estimates as the basis for determining the stated amounts include accounts receivable, mineral property plant and equipment, investments in non-producing properties, estimates for site reclamation and closure and taxes.

Financial instruments: are any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held to maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

The Company does not acquire financial assets for the purpose of selling in the short term. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of loss. Financial assets are subsequently measured at fair value on each reporting date with changes recognized in profit or loss.

(b) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables comprise 'accounts receivable', and 'cash and cash equivalents' in the statement of financial position. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently measured at amortized cost less any impairment.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either specifically designated as available-for-sale or not classified in any of the other categories. They are included in non-current assets unless the Company intends to dispose of the investment within 12 months of the statement of financial position date. Changes in the fair value of available-for sale financial assets denominated in a currency other than the functional currency of the holder, other than equity investments, are analyzed for translation differences and other changes in the carrying amount of the security. The

translation differences are recognized in the statement of loss. Any impairment charges are also recognized in the statement of loss, while other changes in fair value are recognized in other comprehensive income directly. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments previously recognized in other comprehensive income are reclassified to the statement of loss.

Dividends on available-for-sale equity instruments are also recognized in the statement of loss within investment income when the Company's right to receive payments is established. Available-for-sale financial assets are initially recognized on the trade date at fair value plus transaction costs and subsequently measured at fair value.

(d) Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held to maturity investments, are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Financial assets are derecognized when the investments mature or are sold, and substantially all the risks and rewards of ownership have been transferred.

(ii) Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities. They are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. Other financial liabilities consist of trade payables, other payables and due to related affiliates. The Company has no financial liabilities at fair value through profit or loss.

(iii) Derivative financial instruments

When the Company enters into derivative contracts these transactions are designed to reduce exposures related to assets and liabilities, firm commitments or anticipated transactions. All derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured subject to IAS 39 at their fair value at each statement of financial position date.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to their host contracts.

(iv) Fair value

Fair value is the amount at which an item could be exchanged in an arm's length transaction between informed and willing parties. Where relevant market prices are available, these are used to determine fair values. In other cases, fair values are calculated using quotations from independent financial institutions, or by using valuation techniques consistent with general market practice applicable to the instrument.

(v) Impairment of financial assets

Available-for-sale financial assets

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, an evaluation is made as to whether a decline in fair value is 'significant' or 'prolonged' based on an analysis of indicators such as significant adverse changes in the technological, market, economic or legal environment in which the company invested in operates.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of loss is transferred from equity to the statement of loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of loss. Reversals of impairment losses on debt instruments are reversed through the statement of loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized.

(vi) De-recognition of financial assets and liabilities

A financial asset is derecognized when its contractual rights to the cash flows that comprise the financial asset expire or substantially all the risks and rewards of the asset are transferred. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are through profit or loss.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and any difference in the respective carrying amounts is recognized in the statement of loss.

Cash and cash equivalents: Cash includes cash in banks and is held primarily in Canadian dollars ("CAD"). Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are considered loans and receivables and therefore carried at amortized cost.

Short-term Investments: Short-term investments are classified as "fair value through profit or loss", and consist of highly-liquid securities with original maturities in excess of three months. These securities are initially recorded at fair value, which upon their initial measurement is equal to their cost. Subsequent measurements and changes in the market value of these debt and equity securities are recorded as changes in other income. Investments are assessed quarterly for potential impairment.

Capital assets: Expenditures for new facilities, new assets or expenditures that extend the useful lives of existing facilities are capitalized. Maintenance, repairs, and renewals are charged to profit or loss. Any gains or losses on disposition of property, plant and equipment are reflected in the statement of loss. Mineral property costs are depreciated using the units-of-production method based upon estimated total proven and probable reserves. Depreciation of plant and equipment is calculated on a straight-line method at rates sufficient to depreciate such costs over the shorter of estimated productive lives of such assets ranging from three to seven years and the life of the mineral property to which it relates.

Depreciation is provided so as to write off the cost, less estimated residual values of buildings, plant and equipment (based on prices prevailing at the statement of financial position date) on the following bases: Mine production assets are depreciated using a unit of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves. Buildings, plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives. Where parts of an asset have different useful lives, depreciation is calculated on each separate part.

Each asset or part's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mineral property at which the item is

located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

The expected useful lives are included below in the accounting policy for depreciation of property, plant, and equipment.

The net carrying amounts of land, buildings, plant and equipment are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amounts may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully written off through profit or loss. The recoverable amount of an asset or cash-generating-unit is the higher of its fair value less costs to sell and its value in use.

In countries where we have paid Value Added Tax ("VAT") and where there is uncertainty of its recoverability, the VAT payments have either been deferred with mineral property costs relating to the property or expensed if it relates to mineral exploration. If we ultimately recover amounts that have been deferred, the amount received will be applied to reduce mineral property costs or taken as a credit against current expenses depending on the prior treatment.

Expenditure on major maintenance or repairs includes the cost of the replacement of parts of assets and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will be available to the Company, the expenditure is capitalized and the carrying amount of the item replaced derecognized. Similarly, overhaul costs associated with major maintenance are capitalized and depreciated over their useful lives where it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognized. All other costs are expensed as incurred.

Where an item of property, plant and equipment is disposed of, it is derecognized and the difference between its carrying value and net sales proceeds is disclosed as earnings or loss on disposal in the statement of loss. Any items of property, plant or equipment that cease to have future economic benefits are derecognized with any gain or loss included in the financial year in which the item is derecognized.

Resource Properties: Acquisition costs of resource properties, together with direct exploration and development expenses incurred thereon, are carried at cost until the respective property is brought into production, at which time these costs are depleted on a unit-of-production method based on proven and probable reserves. If a property is subsequently determined not to be economic, the property and related deferred costs are written down to the recoverable amount. Costs include cash consideration and the fair market value of shares issued for the acquisition of resource properties and related assets. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment. Other exploration expenses are charged to the statement of loss as incurred. The cost of resource properties and related assets abandoned or sold and their related deferred exploration costs are charged to profit or loss in the year of abandonment or disposition.

The Company is in the process of exploring its resource properties and related assets and has not yet determined the reserves available. Major development expenditures on producing properties incurred to increase production or extend the life of the mine are capitalized while ongoing mining expenditures on producing properties are charged against profit or loss as incurred.

Depreciation of Property, Plant and Equipment: Estimates of residual values and useful lives are reviewed annually and any change in estimate is taken into account in the determination of remaining depreciation charges, and adjusted if appropriate, at each statement of financial position date. Changes to the estimated residual values or useful lives are accounted for prospectively. Depreciation commences on the date when the asset is available for use as intended by management.

Units of production basis

For mining properties and certain mining equipment, the economic benefits from the asset are consumed in a pattern which is linked to the production level. Except as noted below, such assets are depreciated on a unit of production basis.

In applying the units of production method, depreciation is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable reserves and, for some mines, other mineral resources. Such non reserve material may be included in depreciation calculations in limited circumstances and where there is a high degree of confidence in its economic extraction.

Straight line basis

Assets within operations for which production is not expected to fluctuate significantly from one year to another or which have a physical life shorter than the related mine are depreciated on a straight line basis.

Property, plant and equipment are depreciated over its useful life, or over the remaining life of the mine if shorter. The major categories of property, plant and equipment are depreciated on a unit of production and/or straight-line basis as follows:

- Land – not depreciated
- Mobile equipment – 3 to 7 years
- Mining properties and leases – based on reserves on a unit of production basis. Capitalized evaluation and development expenditure– based on applicable reserves on a unit of production basis
- Exploration and Evaluation – not depreciated until mine goes into production

Exploration and Evaluation Expenditure relates to costs incurred on the exploration and evaluation of potential mineral reserves and resources and includes costs such as exploratory drilling and sample testing and the costs of pre-feasibility studies. Exploration expenditure relates to the initial search for deposits with economic potential. Evaluation expenditure arises from a detailed assessment of deposits or other projects that have been identified as having economic potential.

Expenditure on exploration activity is not capitalized.

Capitalization of evaluation expenditure commences when there is a high degree of confidence in the project's viability and hence it is probable that future economic benefits will flow to the Company.

Evaluation expenditure, other than that acquired from the purchase of another mining company, is recognized as an asset provided that such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale.

Purchased exploration and evaluation assets are recognized as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

In the case of undeveloped projects there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the project. In some cases, the projects are regarded as successors to ore bodies, smelters or refineries currently in production. Where this is the case, it is intended that these will be developed and go into production when the current source of ore is exhausted or to replace the reduced output, which results where existing smelters and/or refineries are closed. It is often the case that technological and other improvements will allow successor smelters and/or refineries to more than replace the capacity of their predecessors. Subsequent recovery of the resulting carrying value depends

on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off.

An impairment review is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is expensed in the financial year in which this is determined. Capitalized exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided that the conditions discussed above for expenditure on exploration activity and evaluation expenditure are met.

Expenditure is transferred to mining properties and leases or assets under construction once the work completed to date supports the future development of the property and such development receives appropriate approvals.

Asset Impairment: Management reviews and evaluates its assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is normally assessed at the level of cash-generating units which, in accordance with IAS 36 'Impairment of Assets', are identified as the smallest identifiable group of assets that generates cash inflows, which are largely independent of the cash inflows from other assets. In addition, an impairment loss is recognized for any excess of carrying amount over the fair value less costs to sell of a non-current asset or disposal group held for sale. When an impairment review is undertaken, recoverable amount is assessed by reference to the higher of value in use (being the net present value of expected future cash flows of the relevant cash generating unit) and fair value less costs to sell ('fair value'). The best evidence of fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the cash generating unit in an arm's length transaction. This is often estimated using discounted cash flow techniques.

Where recoverable amount is assessed using discounted cash flow techniques, the resulting estimates are based on detailed mine and/or production plans. For value in use, recent cost levels are considered, together with expected changes in costs that are compatible with the current condition of the business and which meet the requirements of IAS 36. The cash flow forecasts are based on best estimates of expected future revenues and costs, including the future cash costs of production, capital expenditure, close down, restoration and environmental clean-up. These may include net cash flows expected to be realized from extraction, processing and sale of mineral resources that do not currently qualify for inclusion in proved or probable ore reserves. Such non reserve material is included where there is a high degree of confidence in its economic extraction. This expectation is usually based on preliminary drilling and sampling of areas of mineralization that are contiguous with existing reserves. Typically, the additional evaluation to achieve reserve status for such material has not yet been done because this would involve incurring costs earlier than is required for the efficient planning and operation of the mine.

Where the recoverable amount of a cash generating unit is dependent on the life of its associated ore body, expected future cash flows reflect long term mine plans, which are based on detailed research, analysis and iterative modeling to optimize the level of return from investment, output and sequence of extraction. The mine plan takes account of all relevant characteristics of the ore body, including waste to ore ratios, ore grades, haul distances, chemical and metallurgical properties of the ore impacting on process recoveries and capacities of processing equipment that can be used. The mine plan is therefore the basis for forecasting production output in each future year and for forecasting production costs.

The Company's cash flow forecasts are based on estimates of future commodity prices, which assume market prices will revert to the Company's assessment of the long term average price, generally over a period of three to five years. These long term commodity prices, for most commodities, are derived from an analysis of the marginal costs of the producers of these commodities. These assessments often differ from current price levels and are updated periodically.

The discount rates applied to the future cash flow forecasts represent an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted, including appropriate adjustments for the risk profile of

the countries in which the individual cash generating units operate. For operations with a functional currency other than the US dollar, the impairment review is undertaken in the relevant functional currency. To the extent that the currencies of countries in which the Company produces commodities strengthen against the US dollar without commodity price offset, cash flows and, therefore, net present values are reduced. When calculating value in use, IAS 36 requires that calculations should be based on exchange rates current at the time of the assessment. Non-financial assets other than goodwill that have suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Closure and decommissioning costs: The mining, extraction and processing activities of the Company normally give rise to obligations for site closure or rehabilitation. Closure and decommissioning works can include facility decommissioning and dismantling; removal or treatment of waste materials; site and land rehabilitation. The extent of work required and the associated costs are dependent on the requirements of relevant authorities and the Company's environmental policies. Provisions for the cost of each closure and rehabilitation program are recognized at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and decommissioning activity expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances at the reporting date. Routine operating costs that may impact the ultimate closure and decommissioning activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognized as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation. The timing of the actual closure and decommissioning expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating license conditions, and the environment in which the mine operates. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and decommissioning requirements. Closure and decommissioning provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Discount rates used are specific to the underlying obligation. Significant judgments and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements which give rise to a constructive or legal obligation.

When provisions for closure and decommissioning are initially recognized, the corresponding cost is capitalized as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalized cost of closure and decommissioning activities is recognized in Property, plant and equipment and depreciated accordingly. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognized in finance expenses. Closure and decommissioning provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in the provision is greater than the un-depreciated capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in the statement of loss. In the case of closed sites, changes to estimated costs are recognized immediately in the statement of loss. Changes to the capitalized cost result in an adjustment to future depreciation and finance charges. Adjustments to the estimated amount and timing of future closure and decommissioning cash flows are a normal occurrence in light of the significant judgments and estimates involved.

The provision is reviewed at each reporting period for changes to obligations, legislation or discount rates that impact estimated costs or lives of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate and the adjusted cost of the asset is depreciated prospectively.

Foreign Currency Translation: The Company's functional currency and that of its subsidiaries is the U.S. dollar as this is the principal currency of the economic environments in which they operate. Transaction amounts denominated in foreign currencies (currencies other than U.S. dollars) are translated into U.S. dollars at exchange rates prevailing at the transaction dates. Carrying values of foreign currency

monetary assets and liabilities are re-translated at each statement of financial position date to reflect the U.S. exchange rate prevailing at that date.

Gains and losses arising from translation of foreign currency monetary assets and liabilities at each period end are included in earnings except for differences arising on decommissioning provisions which are capitalized for operating mines.

The Company presents its financial statements in Canadian dollars. All amounts are recorded in the functional currency and translated to presentation currency at the end of each period. All assets and liabilities are translated at the spot rate on the date of presentation, items on the statement of loss are translated using average rates for the applicable periods. Exchange differences are recognized in other comprehensive income and accumulated in equity as cumulative translation adjustment.

Income Taxes: Taxation on the earnings or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using rates enacted or substantively enacted at the reporting period, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes. Where an asset has no deductible or depreciable amount for income tax purposes, but has a deductible amount on sale or abandonment for capital gains tax purposes, that amount is included in the determination of temporary differences.

The tax effect of certain temporary differences is not recognized, principally with respect to goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacted accounting or taxable earnings); and temporary differences relating to investments in subsidiaries, jointly controlled entities and associates to the extent that the Company is able to control the reversal of the temporary difference and the temporary difference is not expected to reverse in the foreseeable future related to its investment in associates, subsidiaries and interest in joint ventures. The amount of deferred tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities, with the exception of items that have a tax base solely derived under capital gains tax legislation, using tax rates enacted or substantively enacted at period end. To the extent that an item's tax base is solely derived from the amount deductible under capital gains tax legislation, deferred tax is determined as if such amounts are deductible in determining future assessable income.

A deferred tax asset is recognized only to the extent that it is probable that future taxable earnings will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company has both the right and the intention to settle its current tax assets and liabilities on a net or simultaneous basis.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred income tax asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred income tax asset is recorded.

Current and deferred taxes relating to items recognized directly in equity are recognized in equity and not in the statement of loss. Mining taxes and royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or the entire carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of loss.

Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognized unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future. Assumptions about the generation of future taxable earnings and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, closure and decommissioning costs, capital expenditure, dividends and other capital management transactions.

4. Management of Capital

The Company's objective when managing its capital is to maintain its ability to continue as a going concern while at the same time minimizing the cost of capital and maximizing growth of its business and provide returns to its shareholder. The Company's capital structure consists of shareholder's equity excluding cumulative translation adjustments ($65,171, March 31, 2011; $56,203, December 31, 2010) and its related affiliate loans for a total of $16.3 million as at March 31, 2011 ($16.7 million, December 31, 2010).

The Company's is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2010.

5. Financial Instruments

Overview

The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are metal price risk, credit risk, foreign exchange rate risk, and liquidity risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

Metal Price Risk

Metal price risk is the risk that changes in metal prices will affect the Company's income or the value of its related financial instruments.

The Company will derive its future revenue value from the sale of gold. The Company's future sales are directly dependent on metal prices that have shown extreme volatility and are beyond the Company's control.

Consistent with the Company's mission to provide equity investors with exposure to changes in gold prices, Company policy is not to hedge the price of gold.

The Board of Directors continually assesses the Company's strategy towards its metal exposure, depending on market conditions. At March 31, 2011, the Company had no contracts in place for sales of future production.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meets its contractual obligations, and arises principally from the Company's receivables. The carrying value of the Company's financial assets represents its maximum credit exposure.

The Company invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations.

Foreign Exchange Rate Risk

The Company's functional currency is the United States dollars ("USD") and its reporting currency is CAD, however, the Company operates in jurisdictions that utilize other currencies. As a consequence, the financial results of the Company's operations are subject to changes in the value of the USD relative to local currencies. Since a portion of the Company's operating costs and capital spending are in local currencies, the Company is negatively impacted by strengthening local currencies relative to the USD and positively impacted by the inverse.

As at March 31, 2011, the Company had no forward contracts to purchase foreign currencies. The Company has reviewed its monetary assets and monetary liabilities and estimates that a 10% change in the exchange rate of the foreign currencies in which its March 31, 2011 non-USD net monetary liabilities were denominated would result in a net loss change of $0.01 million. The significant monetary items would be affected by movements in Canadian and Peruvian New Sole ("PEN"). The loans from affiliates are denominated in USD, with a March 31, 2011 balance of $16.0 million. This liability reflects the total amount of USD advances provided to the Company. As this balance is denominated primarily in US dollars, the Company is required to adjust this liability for any movements in the exchange rate of that currency against the Canadian Dollar, with the offsetting amount going to cumulative translation adjustment.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows. The Company has in place a rigorous planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansion plans. The Company strives to maintain sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash and cash equivalents.

The Company's commitments have contractual maturities which are summarized below:

	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Trade payables	$ 27,848	$ 27,848	$ -	-	-
Other payables	84,419	84,419	-	-	-
Due to related affiliates	16,009,666	16,009,666	-	-	-
Total contractual obligations[(1)]	$ 16,121,933	$ 16,121,933	$ -	-	-

(1) Amounts above do not include payments related to the Company's anticipated closure and decommissioning obligation.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, other receivables, trade payables and due to related affiliates are measured at amortized cost and their carrying value approximates their fair value given the relatively short periods to maturity.

The methodology and assessment of inputs for determining the fair value of financial assets and liabilities as well as the levels of hierarchy for the Company's financial assets and liabilities measured at fair value remains unchanged from that at December 31, 2010.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

6. Resource Properties

Acquisition costs of investment and non-producing properties together with costs directly related to mine development expenditures are capitalized. Exploration expenditures on investment and non-producing properties are charged to operations in the period they are incurred.

Capitalization of evaluation expenditures commences when there is a high degree of confidence in the project's viability and hence it is probable that future economic benefits will flow to the Company. Evaluation expenditures, other than that acquired from the purchase of another mining company, are carried forward as an asset provided that such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale. Evaluation expenditures include delineation drilling, metallurgical evaluations, and geotechnical evaluations amongst others.

2011	Balance January 1	Additions	Foreign Currency Adjustment	Balance March 31
Pico Machay (a)	$ 16,525,409	$ 139,627	$ (443,644)	$ 16,221,392

2010	Balance January 1	Additions	Foreign Currency Adjustment	Balance December 31
Pico Machay (a)	$ 16,499,287	$ 813,453	$ (787,331)	$ 16,525,409

a. Pico Machay

On January 28, 2003 the Company's subsidiary, Minera Calipuy S.A.C., entered into a letter of intent with Monterrico Metals PLC to acquire up to a 75% interest in the Pico Machay gold project in Peru. The Company could earn an initial 60% interest by spending a minimum of US$2 million on exploration over four years, with an option to secure a further 15% interest by spending a cumulative US$4 million on exploration or completing a mine development plan within five years. Furthermore, the Company was obligated to incur US$450,000 before the second anniversary January 27, 2005, and US$1 million before the third anniversary of execution of the letter of intent. In addition to the expenditure based vesting milestones, the Company was required to complete two thousand meters of exploration drilling before the second anniversary of execution of the agreement. As of December 31, 2006, the third anniversary drilling and expenditure requirements had been met and the Company owned a 75% interest in the property.

On July 14, 2009, the Company announced the signing of a letter of intent ("LOI") with Monterrico Metals PLC ("Monterrico"), a subsidiary of Xiamen Zijin Tonguuan Investment Development Co. Ltd., a consortium of three Chinese companies. The LOI allowed Aquiline to acquire all of Monterrico's right, title and interest in and to, certain mining concessions associated with the Pico Machay Gold Project in Peru.

Under the terms of the LOI, the purchase consideration was fixed as US$7.8 million, and paid over two years in cash as follows:

- A deposit of US$200,000 paid upon execution of the LOI on July 15, 2009;
- An initial payment of US$1,000,000 paid upon execution of the Transaction Documents on October 5, 2009, and
- US$6,600,000 paid in installments of US$825,000 in December 2009 and the remaining US$5,775,000 in early 2010 as settlement of a promissory note issued in favour of Intercontinental Resources Inc., a subsidiary of Monterrico Metals PLC.

Upon closing of the sale of Aquiline Resources Inc. to Pan American Silver Corp and pursuant to the agreement, the remaining amount of the note in the amount of US$5,775,000 was paid in early 2010,

giving the Company a 100% interest in the property. This purchase for the additional 25% was accounted for as an asset acquisition in amount of the $7.8 million purchase price in 2009.

The property has attached to it an underlying 2% Net Smelter Royalty in favour of Intercontinental Resources Inc.

7. Capital Assets

Capital assets are comprised of the following:

March 31, 2011	Cost	Accumulated Depreciation	Net book value
Building and improvements	$ 26,673	$ (9,508)	$ 17,165
Mobile equipment	366,849	(230,097)	136,752
Total	$ 393,522	$ (239,605)	$ 153,917

December 31, 2010	Cost	Accumulated Depreciation	Net book value
Building and improvements	$ 27,418	$ (10,131)	$ 17,287
Mobile equipment	376,692	(217,411)	159,281
Total	$ 404,110	$ (227,542)	$ 176,568

January 1, 2010	Cost	Accumulated Depreciation	Net book value
Building and improvements	$ 27,418	$ (9,500)	$ 17,918
Mobile equipment	384,226	(147,189)	237,037
Total	$ 411,644	$ (156,689)	$ 254,955

8. Provision for closure and decommissioning costs

The total undiscounted amount of estimated cash flows required to settle the Company's reclamation and closure costs is $213,940 (2010 - $213,940) which has been discounted using a rate of 3.3%. Reclamation obligations have been estimated to occur starting after 2013 and should be completed within a year from the start of reclamation.

A summary of the Company's provision for reclamation and closure costs is presented as follows:

2011	Balance, January 1	Foreign Currency Adjustment	Interest expense	Balance, March 31
Pico Machay	$ 200,460	$ (5,476)	$ 1,482	$ 196,466

2010	Balance, January 1	Foreign Currency Adjustment	Interest expense	Balance, December 31
Pico Machay	$ 203,784	$ (9,644)	$ 6,320	$ 200,460

9. Authorized capital and stated capital

a. Authorized Capital

The authorized capital of Absolut consists of unlimited number of common shares without nominal or par value of which 100 shares is issued and outstanding.

b. Stated Capital

The stated capital of Absolut is $100.

Capital as at March 31, 2011, and as at December 31, 2010 is as follows:

	Shares	Issued capital	Share premium	Total
Capital	100	$ 100	$ 19,056,642	$ 19,056,742

10. Commitments and contingencies

a. Purchase Commitments

The Company had no purchase commitments.

b. Environmental Matters

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company conducts its operations so as to protect the public health and environment and believes its operations are in compliance with applicable laws and regulations in all material respects. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures.

Estimated future reclamation costs are based principally on legal and regulatory requirements. As of March 31, 2011 and December 31, 2010, $0.2 million and $0.2 million, respectively, were accrued for reclamation costs relating to mineral properties in accordance with IAS 37 *"Provisions, Contingent Liabilities, and Contingent Assets"*. See also Note 8.

c. Income Taxes

The Company operates in Canada and Peru and accordingly it is subject to, and pays annual income taxes under the various income tax regimes in the countries in which it operates. Some of these tax regimes are defined by contractual agreements with the local government, and others are defined by the general corporate income tax laws of the country. The Company has historically filed, and continues to file, all required income tax returns and to pay the taxes reasonably determined to be due. The tax rules and regulations in many countries are highly complex and subject to interpretation. From time to time the Company is subject to a review of its historic income tax filings and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain rules to the Company's business conducted within the country involved.

d. Other Legal Matters

The Company may be subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of business activities. Such matters are subject to inherent uncertainties and may be resolved unfavourably to the Company. The Company establishes provisions for matters that are probable and can be reasonably estimated, included within current liabilities, and amounts are not considered material.

In assessing loss contingencies related to legal proceedings pending against the Company, if any, or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the

perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

e. Title Risk

Although the Company has taken steps to verify title to properties in which it has an interest, these procedures do not guarantee the Company's title. Property title may be subject to, among other things, unregistered prior agreements or transfers and may be affected by undetected defects.

f. Royalty Agreements

The Company has a royalty agreement on the Pico Machay property entitling the counterparties to the agreements to receive payments per terms of the agreement. Royalty liabilities incurred on acquisitions of properties are netted against mineral property while royalties that become payable upon production are expensed at the time of sale of the production as an offset to gross sales.

11. Segmented Information

The Company operates in one reportable operating segment, being mineral exploration. As at March 31, 2011 the Company's mineral properties are located in Peru and its corporate assets are located in Canada. The Company is in the development stage with no reportable segment revenues during 2011 and 2010.

A summary of total assets by geographic region is as follows:

March 31, 2011	**Canada**	**Peru**	**Total**
Current assets	$ 96,802	$ 113,295	$ 210,097
Resource properties	-	16,221,392	16,221,392
Capital assets	-	153,917	153,917
	$ 96,802	$ 16,488,604	$ 16,585,406
December 31, 2010			
Current assets	$ 32,710	$ 207,751	$ 240,461
Resource properties	-	16,525,409	16,525,409
Capital assets	-	176,568	176,568
	$ 32,710	$ 16,909,728	$ 16,942,438
January 1, 2010			
Current assets	$ 64,081	$ 31,845	$ 95,926
Resource properties	-	16,499,287	16,499,287
Capital assets	-	254,955	254,955
	$ 64,081	$ 16,786,087	$ 16,850,168

12. Income Taxes

The effective tax rate of zero differs from the statutory tax rate applicable to the Company due to the fact that the tax benefit applicable to the loss from operations and related resource expenditures have not been recognized due to uncertainty.

As at March 31, 2011 the Company had $2.8 million (December 31, 2010 $2.8 million) in non-capital losses available for Canadian tax purposes which may be carried forward to reduce taxable income in

future years. If not utilized, these losses will expire as follows: 2014 - $0.4 million, 2015 - $0.4 million, and $2.0 million from 2026 to 2029. In addition, the Company has approximately $3.6 million (December 31, 2010 - $3.6 million) of non-capital losses in Peru, which can be used to reduce taxable income of future years, expiring at various times up to December 31, 2015.

13. Related party transactions and balances

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

As at March 31, 2011, the carrying amounts of the Company's due to related affiliates was $16.0 million ($16.3 million as at December 31, 2010). This entire amount is due to Pan American Silver Corp and its subsidiaries. Included in due to related affiliates are amounts for funding of services and acquisition costs related to advancement of explorations projects. The amounts to be repaid are unsecured and non-interest bearing and due on demand.

Certain administrative and head office costs relating to the Company have been borne by Pan American Silver' and are not refunded by the Company.

CERTIFICATE OF THE COMPANY

Dated August 4, 2011

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

TREASURY METALS INC.

(Signed)	*Martin Walter* Chief Executive Officer	*(Signed)*	*Dennis Gibson* Chief Financial Officer

On behalf of the Board of Directors of Treasury Metals Inc.

(Signed)	*Harry Burgess* Director	*(Signed)*	*Marc Henderson* Director

CERTIFICATE OF THE AGENTS

Dated August 4, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

CORMARK SECURITIES INC.

(Signed) *Darren Wallace*

CANACCORD GENUITY CORP.

(Signed) *Craig Warren*