

*A copy of this preliminary prospectus (the "Prospectus") has been filed with the securities regulatory authorities in the provinces of British Columbia, Alberta and Ontario but has not yet become final for the purpose of the sale of securities. Information contained in this Prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the 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 prospectus constitutes a public offering of the securities only in those jurisdictions where they may be lawfully offered for sale and therein only be persons authorized to sell such securities. The securities offered hereby have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws and, unless registered under the U.S. Securities Act or pursuant to an applicable exemption from registration under the U.S. Securities Act, may not be offered, sold or delivered, directly or indirectly to, or for the account or benefit of, persons in the United States (as defined in Regulation S under the U.S. Securities Act) or U.S. persons ("U.S. Persons") (as defined in Regulation S under the U.S. Securities Act). This prospectus does not constitute an offer to sell or solicitation of an offer to buy any of the securities offered hereby to, or for the account or benefit of, persons in within the United States or U.S. Persons. See "Plan of Distribution".*

## PRELIMINARY PROSPECTUS

Initial Public Offering

July 8, 2011

# RAE-WALLACE MINING COMPANY

**Minimum of \$2,500,000 or 8,333,333 Units**  
**Maximum of \$4,000,000 or 13,333,333 Units**

This Prospectus qualifies the distribution by Rae-Wallace Mining Company (the "Company" or "Rae-Wallace"), of a minimum of 8,333,333 units of the Company ("Units") for aggregate gross proceeds of \$2,500,000 (the "Minimum Offering") and a maximum of 13,333,333 Units for aggregate gross proceeds of \$4,000,000 (the "Maximum Offering") to be issued by the Company (the "Offering") at a price of \$0.30 per Unit (the "Offering Price"). Each Unit consists of one common share (a "Unit Share") in the capital of the Company and one-half of one common share purchase warrant. Each whole common share purchase warrant (a "Warrant") shall permit the holder thereof to purchase one common share (a "Warrant Share") of the Company at an exercise price of \$0.40 per Warrant Share for a period of 24 months following the Closing Date (as defined herein).

The Units are being offered through Raymond James Ltd. (the "Agent") pursuant to an agency agreement (the "Agency Agreement") dated ●, 2011 between the Company and the Agent and subject to the approval of certain legal matters on behalf of the Company by Irwin Lowy LLP and on behalf of the Agent by Burstall Winger LLP. The Offering is being conducted by the Agent on a commercially reasonable efforts basis to residents in the provinces of British Columbia, Alberta and Ontario, and elsewhere where permitted by applicable law. The Offering Price was determined by negotiation between the Company and the Agent. See "Plan of Distribution". The Company has applied to the TSX Venture Exchange (the "TSXV") to have its common shares (the "Common Shares") listed on the TSXV. The listing of the Common Shares will be conditional upon the Company fulfilling all initial listing requirements and conditions of the TSXV.

	Price to Public	Agent's Fee <sup>(1)</sup>	Net Proceeds to the Company <sup>(2)</sup>
Per Unit.....	\$0.30	\$0.027	\$0.273
Total Minimum Offering .....	\$2,500,000	\$225,000	\$2,275,000
Total Maximum Offering .....	\$4,000,000	\$360,000	\$3,640,000

Notes:

(1) In connection with the Offering, the Company agreed to pay a cash fee (the "Agent's Fee") to the Agent in an amount equal to 9% of the aggregate gross proceeds raised under the Offering. As additional consideration, the Company will issue to the Agent broker warrants (the "Broker Warrants") entitling the Agent to purchase that number of Common Shares ("Broker Warrant Shares") that is equal to 9% of the aggregate number of Units sold pursuant to the Offering. Each Broker Warrant will be exercisable to acquire one Broker Warrant Share at a price of \$0.30 per Broker Warrant Share at any time prior to the date which is 24 months from the Closing Date (as defined herein). Upon successful completion of the Offering, the Company will also issue to the Agent 80,000 Common Shares (the "Corporate Finance Shares") at a deemed price of \$0.30 per Corporate Finance Share. This Prospectus also qualifies the distribution of the Corporate Finance Shares and the Broker Warrants. See "Plan of Distribution".

(2) *Estimated net proceeds are calculated after deducting the Agent's Fee but before deducting the expenses of the Offering which are estimated to be \$150,000.*

<b>Agent's Position</b>	<b>Maximum Size or Number of Securities Available</b>	<b>Exercise Period or Acquisition Date</b>	<b>Exercise Price</b>
Broker Warrants <sup>(1)</sup> .....	1,200,000	24 months from Closing Date	\$0.30
Corporate Finance Shares <sup>(1)</sup> .....	80,000	Closing Date	\$0.30

*Note:*

(1) *This Prospectus also qualifies the distribution of the Corporate Finance Shares and the Broker Warrants. See "Plan of Distribution".*

The distribution of securities offered hereunder must cease within • days after the date of the receipt issued for this Prospectus unless an amendment to this Prospectus has been filed and a receipt has been issued therefore. In the event a receipt is issued for an amendment to this Prospectus then the distribution must cease within • days after the date of such receipt. See "**Plan of Distribution**".

Subscriptions for Units 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. It is expected that the closing of the Offering will take place on or about •, 2011 or such other date as the Company and the Agent may agree (the "**Closing Date**"), but no later than •, 2011. Confirmation of the acceptance of a subscription will be forwarded to the purchaser upon acceptance by the Agent. See "**Plan of Distribution**".

The Agent, as exclusive agent of the Company for the purpose of this Offering, hereby conditionally offers the Units on a commercially reasonable efforts basis, subject to prior sale, if, as and when issued by the Company and accepted by the Agent in accordance with the terms and conditions of the Agency Agreement subject to the approval of certain legal matters by Irwin Lowy LLP, on behalf of the Company, and by Burstall Winger LLP on behalf of the Agent. See "**Plan of Distribution**".

**An investment in the Units should be considered highly speculative due to various factors, including the nature of the Company's business and the present stage of its development. An investment in the Units should only be made by persons who can afford the total loss of their investment. Investors should carefully review the risk factors outlined in this Prospectus before agreeing to purchase Units. See "Risk Factors".**

**George Cole, who is signing the certificate of the Company for this Prospectus resides outside of Canada. In addition, the Company is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada. Although the persons above have appointed Irwin Lowy LLP, Suite 1010, 130 Adelaide Street West, Toronto, Ontario M5H 3P5 as its agent(s) for service of process in Ontario it may not be possible for investors to enforce judgments obtained in Canada against the persons described above.**

**There is currently no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this Prospectus. This may affect the pricing of securities in any secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".**

**INVESTMENTS IN NATURAL RESOURCE ISSUERS INVOLVE A SIGNIFICANT DEGREE OF RISK. THE DEGREE OF RISK INCREASES SUBSTANTIALLY WHERE THE COMPANY'S PROPERTIES ARE ALL IN THE EXPLORATION STAGE. THE PROPERTIES OF THE COMPANY ARE IN THE EXPLORATION STAGE AND ARE WITHOUT KNOWN BODIES OF COMMERCIAL GOLD ("Au") OR SILVER ("Ag"). INVESTORS SHOULD NOT INVEST ANY FUNDS IN THE OFFERING UNLESS THEY CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT. FOR FURTHER PARTICULARS, SEE "RISK FACTORS".**

## TABLE OF CONTENTS

SUMMARY OF PROSPECTUS .....	2
ELIGIBILITY FOR INVESTMENT.....	3
CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION .....	3
FINANCIAL INFORMATION AND ACCOUNTING POLICIES.....	4
EXCHANGE RATE INFORMATION .....	4
MARKET DATA.....	4
METRIC CONVERSION TABLE .....	5
GLOSSARY OF TERMS RELATING TO MINING AND MINERAL PROPERTIES.....	6
GEOLOGICAL TIMESCALE.....	9
GLOSSARY OF NON-TECHNICAL TERMS .....	10
CORPORATE STRUCTURE .....	16
DESCRIPTION OF THE BUSINESS .....	16
LISCAY PROPERTY .....	19
TORO BLANCO PROPERTY .....	63
USE OF PROCEEDS .....	96
SELECTED FINANCIAL INFORMATION.....	96
DIVIDEND RECORD AND POLICY.....	98
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	98
DESCRIPTION OF THE SECURITIES DISTRIBUTED .....	109
CONSOLIDATED CAPITALIZATION.....	109
OPTIONS TO PURCHASE SECURITIES.....	110
PRIOR SALES.....	110
ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER.....	111
PRINCIPAL SECURITYHOLDERS .....	112
DIRECTORS AND OFFICERS.....	112
EXECUTIVE COMPENSATION.....	117
INDEBTEDNESS OF OFFICERS AND DIRECTORS.....	123
AUDIT COMMITTEE.....	123
CORPORATE GOVERNANCE .....	123
PLAN OF DISTRIBUTION .....	125
RISK FACTORS .....	127
CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.....	133
CERTAIN UNITED STATES OF AMERICA FEDERAL INCOME TAX CONSIDERATIONS .....	136
LEGAL PROCEEDINGS AND REGULATORY ACTIONS.....	140
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	140
EXPERTS AND INTEREST OF EXPERTS .....	141
LEGAL MATTERS .....	141
AUDITORS, TRANSFER AGENT AND REGISTRAR .....	141
MATERIAL CONTRACTS .....	141
PURCHASERS' STATUTORY RIGHTS.....	142
AUDITORS' CONSENT.....	C-1
AUDITORS' CONSENT.....	C-2
CERTIFICATE OF THE COMPANY .....	D-1
CERTIFICATE OF THE AGENT .....	D-2

## SUMMARY OF PROSPECTUS

*The following is a summary of the principal features of this Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this Prospectus. All references to monetary amounts are to be read as references to Canadian dollars, unless otherwise specified in this Prospectus.*

**Company Name:** Rae-Wallace Mining Company.

**Business of the Company:** Rae-Wallace is a mineral exploration company that plans to explore and develop properties to the mineral production stage. The Company is currently considered to be in the exploration stage and its principal assets and sole material properties are the 100% owned Liscay gold-silver project (the “**Liscay Project**” or the “**Liscay Property**”) and the Toro Blanco gold project (the “**Toro Blanco Project**” or the “**Toro Blanco Property**”) each located in Southwest (“**SW**”) Peru. The principal business of the Company is the identification, acquisition, evaluation, exploration and development of mineral exploration properties, including the Liscay Project and the Toro Blanco Project (collectively, the “**Projects**”). See “**Description of the Business**”.

**Offering:** A minimum of 8,333,333 Units and a maximum of 13,333,333 Units are being offered under this Prospectus at a price of \$0.30 per Unit in the provinces of British Columbia, Alberta and Ontario. Each Unit consists of one Common Share and one-half of one Warrant. Each whole Warrant shall permit the holder thereof to purchase one Warrant Share at an exercise price of \$0.40 per Warrant Share for a period of 24 months following the Closing Date. The gross proceeds of the Offering will be \$2,500,000 if the Minimum Offering is sold and \$4,000,000 if the Maximum Offering is sold. In connection with the Offering, the Company will: (i) pay to the Agent a cash fee equal to 9% of the gross proceeds raised from the sale of Units; (ii) issue to the Agent Broker Warrants which will entitle the Agent to purchase, in the aggregate, that number of Common Shares equal to 9% of the total number of Units sold under the Offering at a price of \$0.30 per Broker Warrant Share, exercisable for a period of 24 months from the Closing Date, and (iii) issue to the Agent 80,000 Corporate Finance Shares with a deemed price of \$0.30 per Common Share. The distribution of the Units, Broker Warrants and Corporate Finance Shares are all qualified by this Prospectus. See “**Plan of Distribution**”.

**Use of Proceeds:** The net proceeds to the Company from the Offering after deducting the estimated costs of the Offering of approximately \$150,000, and the Agent’s Fee, are estimated to be \$2,125,000 in the case of the Minimum Offering, and \$3,490,000 in the case of the Maximum Offering. The Company intends to use the funds available to it on completion of the Offering primarily for pre-drilling, drilling, acquisitions and general and administrative costs. See “**Use of Proceeds**”.

**Summary of Financial Information:** The following table provides a summary of certain financial information of the Company that is derived from the audited consolidated financial statements of the Company for the years ended June 30, 2008, June 30, 2009 and June 30, 2010 and from the unaudited consolidated financial statements of the Company for the nine month period ended March 31, 2011 and should be read in conjunction with the “**Management’s Discussion and Analysis**” and the financial statements of the Company and the notes thereto included elsewhere in this Prospectus. See “**Selected Financial Information**” and “**Management’s Discussion and Analysis**”.

	<b>9 months ended March 31, 2011 (unaudited) (US\$)</b>	<b>Year ended June 30, 2010 (audited) (US\$)</b>	<b>Year ended June 30, 2009 (audited) (US\$)</b>	<b>Year ended June 30, 2008 (audited) (US\$)</b>
Net loss	(283,740)	(806,652)	(503,708)	(328,442)
Net loss per share	(0.01)	(0.06)	(0.04)	(0.04)

	<b>As at March 31, 2011 (unaudited) (US\$)</b>	<b>As at June 30, 2010 (audited) (\$US)</b>	<b>As at June 30, 2009 (audited) (\$US)</b>	<b>As at June 30, 2008 (audited) (\$US)</b>
Total assets	758,858	222,004	636,594	1,141,925
Total liabilities	32,265	145,137	33,575	52,198
Share Capital	726,593	76,867	603,019	1,089,727
Deficit	(2,561,430)	(1,709,436)	(902,784)	(399,076)

**Risk Factors:**

An investment in securities of the Company should be considered highly speculative due to the nature of the Company’s business and the present stage of its exploration and should be considered only by investors who can afford the total loss of their investment. A prospective purchaser of securities of the Company should be aware that there are various risks that could have a material adverse effect on, among other things, the properties, business and condition (financial or otherwise) of the Company. See “**Risk Factors**”. These risk factors, together with all of the other information contained in this Prospectus, including information contained in the section entitled “**Cautionary Statement Regarding Forward Looking Information**”, should be carefully reviewed and considered before a decision to purchase securities of the Company is made.

**ELIGIBILITY FOR INVESTMENT**

In the opinion of Irwin Lowy LLP, counsel to the Company, based on the current provisions of the Income Tax Act (Canada) and the regulations thereunder (collectively, the “**Tax Act**”), the Unit Shares, the Warrants and the Warrant Shares, if issued on the date hereof, will be qualified investments under the Tax Act for trusts governed by Plans (as defined herein) provided the Unit Shares are listed on a designated stock exchange (which currently includes the TSXV), and in the case of the Warrants, the Company deals at arm’s length with each person who is an annuitant, a beneficiary, an employer or a subscriber under such Plans.

The Unit Shares, the Warrants and the Warrant Shares will not be prohibited investments under the Tax Act for a TFSA (or if certain proposals contained in the March 22, 2011 Federal Budget are enacted as proposed, a registered retirement savings plan or registered retirement income fund) provided the holder of the TFSA deals at arm’s length with the Company and does not have a “significant interest” (within the meaning of the Tax Act) in the Company or in a corporation, partnership or trust that does not deal at arm’s length with the Company for purposes of the Tax Act. Holders should consult their own tax advisors to ensure the Unit Shares, the Warrants or the Warrant Shares would not be a prohibited investment in their particular circumstances.

**CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION**

This Prospectus contains “forward-looking information” which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company and its projects, exploration expenditures, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks and regulatory matters. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes” or variations (including negative variations) of such words and

phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; the future prices of Au and Ag and other commodities; failure of the equipment or processes to operate as anticipated; accidents, labour disputes and other risks related to the mining industry; delays in obtaining governmental approvals or financing or in the completion of exploration or development activities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this Prospectus. Subject to applicable securities laws, neither the Company nor the Agent assume any obligation to update or revise forward-looking statements to reflect new events or circumstances. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward-looking statements.

## **FINANCIAL INFORMATION AND ACCOUNTING POLICIES**

Unless otherwise indicated, all references to “\$” or “dollars” in this Prospectus refer to Canadian dollars. All references to “US\$” or “U.S. dollars” in this Prospectus refer to United States dollars. The financial statements included herein are reported in U.S. dollars. All such financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”).

## **EXCHANGE RATE INFORMATION**

The closing, high, low and average exchange rates for U.S. dollars (based on the noon rates) expressed in Canadian dollars for each of the three years ended December 31, 2010, 2009 and 2008, as reported by the Bank of Canada, were as follows.

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	(\$)	(\$)	(\$)
Closing.....	0.9946	1.0466	1.2246
High.....	1.0778	1.3000	1.2969
Low.....	0.9946	1.0292	0.9719
Average.....	1.0299	1.1420	1.0066

As of July 7, 2011, the exchange rate for one U.S. dollar expressed in Canadian dollars, based upon the noon rates provided by the Bank of Canada was \$0.9586.

## **MARKET DATA**

This Prospectus contains statistical data, market research and industry forecasts that were obtained from government or other industry publications and reports or based on estimates derived from such publications and reports and management’s knowledge of, and experience in, the markets in which the Company operates. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. None of the authors of such publications and reports has provided any form of consultation, advice or counsel regarding any aspect of, or is in any way whatsoever associated with, the Offering. Further, certain of these organizations are advisors to participants in the mining and minerals industries, and they may present information in a manner that is more favourable to that industry than would be presented by an independent source. Actual outcomes may vary materially from those forecast in such reports or publications, and the prospect for material variation can be expected to increase as the length of the forecast period increases. While management believes this data to be

reliable, market and industry data is subject to variations and cannot be verified due to limits on the availability and reliability of data inputs, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy, currency and completeness of this information cannot be guaranteed. Neither the Company nor the Agent have independently verified any of the data from third party sources referred to in this Prospectus or ascertained the underlying assumptions relied upon by such sources.

#### **METRIC CONVERSION TABLE**

For ease of reference, the following conversion factors are provided:

<b>Metric Unit</b>	<b>U.S. Measure</b>	<b>U.S. Measure</b>	<b>Metric Unit</b>
1 hectare.....	2.471 acres	1 acre .....	0.4047 hectares
1 metre .....	3.2881 feet	1 foot.....	0.3048 metres
1 kilometre.....	0.621 miles	1 mile .....	1.609 kilometres
1 gram.....	0.032 troy ounces	1 troy ounce .....	31.1 grams
1 kilogram.....	2.205 pounds	1 pound .....	0.4541 kilograms
1 tonne .....	1.102 short tons	1 short ton .....	0.907 tonnes
1 gram/tonne .....	0.029 troy ounces/ton	1 troy ounce/ton .....	34.28 grams/tonne

## GLOSSARY OF TERMS RELATING TO MINING AND MINERAL PROPERTIES

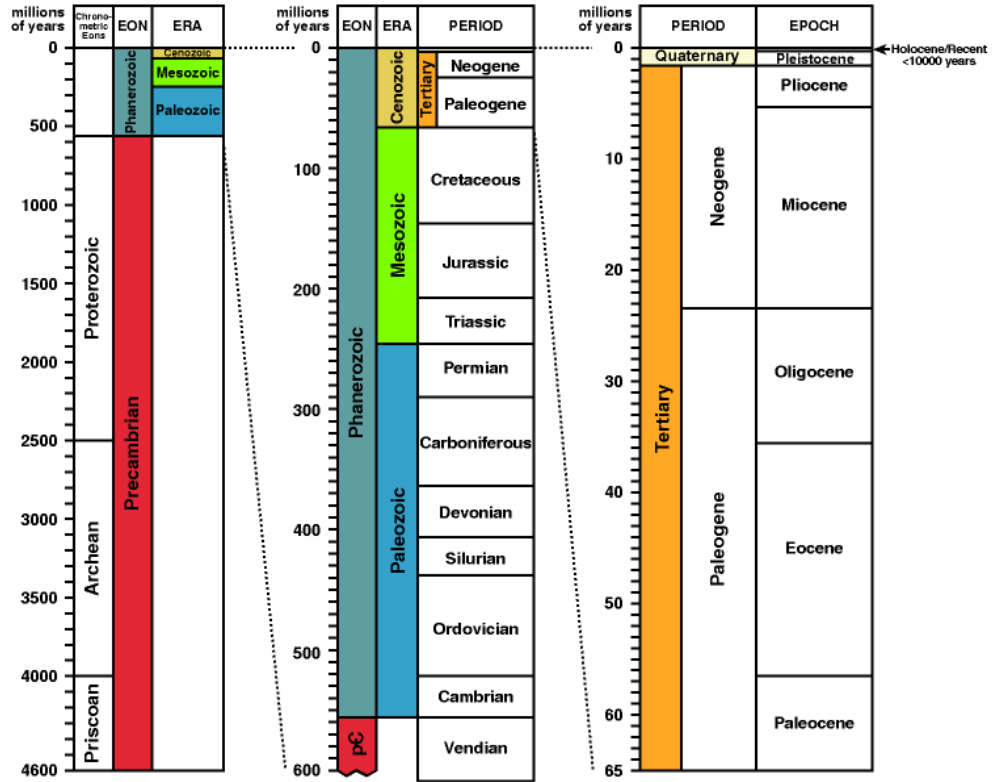
Ag	silver
Alunite	a vitreous white, yellowish, rhombohedral mineral
Andean Trend	a dominant regional (north-northwest-trending) orientation
Andesite	an extrusive igneous, volcanic rock, of intermediate composition, with aphanitic to porphyritic texture. In a general sense, it is the intermediate type between basalt and dacite
Apacheta Formation	a mid-Cenozoic-age rock unit, approximately 600m thick on the Toro Blanco Property consisting of volcanic rocks
Argillic	pertaining to clay or clay minerals
Au	gold
Batholith	a very large intrusive igneous rock mass that has been exposed by erosion and with an exposed surface area of over 100 square km.
Bi	bismuth
Biotite	a widely distributed and important rock-forming mineral of the mica group
BLEG	bulk-leach extractable gold
Bonanza	high-grade
Calc-alkaline	a group of igneous rocks characterized by hydrous and oxidized mineral assemblages and typical of island-arc geological settings
Cenozoic-age	time span between 65 Ma and the present day
cm	centimeter
Coastal Batholith	a rock formation located on the Liscay Property which consists of intrusive rocks. The Coastal Batholith has been dated between upper Cretaceous-age to middle Tertiary-age, the latter age being coeval with the Tertiary volcanic rocks in the region;
colluviums	detritus (clay, silt, sand, cobbles, boulders) weathered from outcrop peaks and transported by gravity towards the base of a slope
Cretaceous-age	time span between 145 and 65 Ma
Cu	copper
Dacitic	consisting of or relating to dacite
DDH	diamond drill hole
Economically Interesting	$\geq 500$ ppb Au and $\geq 50$ ppm Ag
Eocene-age	time span between 56 and 34 Ma



Explosion Breccia	a texture where the original rock appears to be broken into angular fragments with a matrix that serves as a cement holding the fragments together
Extrusive Igneous	volcanic rock solidified near or on the surface of the Earth
Feldspars	a group of rock-forming tectosilicate minerals
Geochemically Anomalous	$\geq 50$ ppb Au and $\geq 5$ ppm Ag
g	gram
Graben	a downfaulted block of rock
g/t	grams per tonne
ha	hectare(s)
Hg	mercury
Hornblende	the commonest mineral of the amphibole group
Horst	an upfaulted block of rock
Hydrothermal	hot water
Hypabyssal	an igneous rock or intrusive body formed at a shallow depth
Intrusive Igneous Rocks	rocks formed from molten Earth's crust that cools and solidifies
ISO	International Organization for Standardization
km	kilometre(s)
m	metre(s)
Ma	million years
Miocene-age	time span between 23 and 5 Ma
mm	millimeter
Mo	molybdenum
Ogocene-age	time span between 34 and 23 Ma
Opt	ounces per ton
Pb	lead
Plagioclase	a variety of feldspar
ppb	part per billion

ppm	part per million
Quaternary-age	time span between 2.588 Ma and present day
Sanidine	a variety of high-temperature feldspar
Sb	antimony
Sedimentary Rock	a type of rock that is formed by sedimentation of material at the Earth's surface and within bodies of water.
Sericitization	a hydrothermal, deuteric, or metamorphic process involving the introduction of, alteration to, or replacement by sericitic muscovite.
Silicic	said of a silica-rich igneous rock or magma
Silicification	alteration involving the introduction of secondary silica
Tertiary-age	time span between 65 and 2.6 Ma
Tuff	is a type of rock consisting of consolidated volcanic ash ejected from vents during a volcanic eruption
μm	micrometer
UTM	universal transverse mercator
Vugs	small to medium-sized cavities inside rock that may be formed through a variety of processes
WGS	world geodetic system
Zn	zinc
+-	plus or minus
>	greater than
<	less than

# GEOLOGICAL TIMESCALE



## GLOSSARY OF NON-TECHNICAL TERMS

<b>“AAG”</b>	Andean American Gold Corp.;
<b>“Agency Agreement”</b>	an agency agreement between the Company and the Agent dated ●, 2011;
<b>“Agent”</b>	Raymond James Ltd.;
<b>“Agent’s Fee”</b>	the cash fee payable by the Company to the Agents equal to 9% of the aggregate gross proceeds of the Offering;
<b>“allowable capital loss”</b>	one-half of a capital loss
<b>“ASC”</b>	Accounting Standards Codification;
<b>“Audit Committee”</b> or <b>“Committee”</b>	committee established by the Board to assist the Board in fulfilling its financial reporting and controls responsibilities to the shareholders of the Company;
<b>“Base Rate”</b>	the prescribed rate is the amount determined under the Regulations on a quarterly basis as the average equivalent yield of Government of Canada 90-day treasury bills (rounded to the next highest whole percentage) sold during the first month of the immediately preceding quarter;
<b>“BCSC”</b>	British Columbia Securities Commission;
<b>“Board”</b>	the board of directors of the Company;
<b>“Broker Warrants”</b>	the warrants to be granted to the Agents to purchase a number of Common Shares at the Offering Price, in an amount equal to 9% of the aggregate number of Units sold pursuant to the Offering, as compensation for the Agents’ services in connection with the Offering. Each Broker Warrant will be exercisable into one Broker Warrant Share upon payment of \$0.30 per Broker Warrant Share at any time prior to the date which is 24 months from the Closing Date (as defined herein);
<b>“Broker Warrant Shares”</b>	the Common Shares issued pursuant to the due exercise of the Broker Warrants;
<b>“CEO”</b>	chief executive officer;
<b>“CFO”</b>	chief financial officer;
<b>“Closing Date”</b>	●, 2011, or such other date as the Company and the Agent may agree, but no later than ●, 2011;
<b>“Code”</b>	United States Internal Revenue Code of 1986, as amended;
<b>“Cole EA”</b>	employment agreement between the Company and George Cole dated March 24, 2010;
<b>“Common Shares”</b>	the common shares in the capital of the Company;
<b>“Company”</b> or <b>“Rae Wallace”</b>	Rae-Wallace Mining Company;
<b>“Concessions and Property Transfer Agreement”</b>	concessions and property transfer agreement between the Company and Geologix dated July 12, 2010;
<b>“Corporate Finance Shares”</b>	80,000 Common Shares issued to the Agent upon successful completion of the Offering;
<b>“CRA”</b>	Canada Revenue Agency;
<b>“December PP Broker Warrants”</b>	13,000 broker warrants issued by the Company in conjunction with the December Private Placement, with each December PP Broker Warrant entitling

		its holder thereof to purchase on December PP Unit at a price of \$0.25 per December PP Unit for a period of 24 months following a Liquidity Event;
<b>“December PP Unit”</b>		the units issued by the Company pursuant to the December Private Placement, each unit entitling the subscriber to one Common Share, one December PP Warrant and one Liquidity Entitlement;
<b>“December PP Warrant”</b>		warrants forming part of the December PP Unit, which entitles the holder thereof to purchase one Common share for a period of 24 months following a Liquidity Event at a price equal to the lesser of \$0.50 and the exercise price of any warrants issued in connection with a Liquidity Event;
<b>“December 2010 Private Placement”</b>		private placement financing of the Company which closed (in two tranches) on December 7, 2010 and December 31, 2010 respectively, in which the Company issued 2,893,000 December PP Units at a price of \$0.25 per December PP Unit for aggregate gross proceeds of \$723,250;
<b>“Domestication”</b>		the domestication of the Company from the State of Idaho to the Cayman Islands, completed on June 15, 2011;
<b>“E”</b>		east;
<b>“EIS”</b>		Environmental Impact Study;
<b>“EPS”</b>		earnings per share;
<b>“Equity Financial”</b>		Equity Financial Trust Company;
<b>“Escrow Agreement”</b>		an escrow agreement between the Company, the Escrowed Shareholders and Equity Financial;
<b>“Escrowed Securities”</b>		the 1,330,000 Common Shares, 300,000 warrants and 1,900,000 Stock Options subject to Escrow in connection with the Offering;
<b>“Escrowed Shareholders”</b>		has the meaning ascribed to it in <i>“Escrowed Securities and Securities Subject to Restrictions on Transfer”</i> ;
<b>“FASB”</b>		Financial Accounting Standards Board;
<b>“Financial Statements”</b>		Collectively, the unaudited consolidated financial statements for the three and nine month period ended March 31, 2011 and the audited consolidated financial statements and related notes for the years ended June 30, 2010, 2009, and 2008 prepared in accordance with accounting principles generally accepted in the United States;
<b>“Friberg EA”</b>		employment agreement between the Company and Stephen Friberg dated December 1, 2007;
<b>“Fronteer”</b>		Fronteer Gold Inc. (which was acquired by Pilot Gold Inc.);
<b>“Fronteer Option”</b>		the option to acquire a 51% interest in up to two Optioned Properties granted by the Company to Fronteer;
<b>“Fronteer Option Agreement”</b>		option agreement between the Company and Fronteer dated July 22, 2010;
<b>“Fronteer Subscription Agreement”</b>		subscription agreement between the Company and Fronteer dated July 22, 2010;
<b>“Fugro”</b>		Fugro Ground Geophysics;
<b>“GAAP”</b>		United States generally accepted accounting principles;
<b>“Geologix”</b>		Geologix Explorations Inc.;
<b>“Geologix/Newmont JV”</b>		joint venture project between Geologix and Newmont over the Liscay Property pursuant to an agreement dated March 31, 2008;

<b>“Geologix Option”</b>	option granted to the Company by Geologix to acquire 100% interest in the Optioned Properties;
<b>“Geologix Option Agreement”</b>	an option agreement between the Company and Geologix dated July 8, 2010;
<b>“Holder”</b>	a purchaser who, for the purposes of the Tax Act and at all relevant times, is resident or deemed to be resident in Canada, deals at arm’s length with and is not affiliated with the Company and holds Unit Shares, Warrant Shares or Warrants as capital property;
<b>“ICP”</b>	analysis of Au and Ag (assay) and a suite of 49 additional elements;
<b>“Inspectorate”</b>	Inspectorate Services Peru SAC;
<b>“Investment Assets”</b>	(i) shares of the capital stock of one or more corporations, (ii) indebtedness or annuities, (iii) interests in one or more corporations, trusts, partnerships, organizations, funds or entities, (iv) commodities, (v) real estate, (vi) Canadian or foreign resource properties, (vii) currency of a country other than Canada, (viii) rights or options to acquire or dispose of any of the foregoing, or (viii) any combination of the foregoing;
<b>“IP”</b>	orientation-scale pole-dipole induced-polarization;
<b>“IRS”</b>	Internal Revenue Service
<b>“Liscay Concessions”</b>	collectively, the Liscay North Concession and Liscay South Concession;
<b>“Liscay North Concession”</b>	the northern claim group comprising 9 concessions totalling 8,800 ha;
<b>“Liscay Project” or “Liscay Property”</b>	the Company’s Liscay gold-silver project;
<b>“Liscay South Concession”</b>	the southern claim group comprising 3 concessions totalling 3,000 ha,
<b>“Liscay Technical Report”</b>	compliant technical report prepared by John A. Brophy, P.Geo, an independent person of the Company and a “Qualified Person”, as defined in NI 43-101;
<b>“Liquidity Entitlement”</b>	forming part of the PP Unit (as defined below), which entitled the holder thereof to one additional Common Share for each 10 PP units purchased under the December 2010 Private Placement pursuant to the terms of the certificates evidencing the Liquidity Entitlements;
<b>“Liquidity Event”</b>	means the completion by the Company of each of the items listed under either 1, 2, and 3 or 4 and 5 below: <ol style="list-style-type: none"> <li>1. an initial public offering in Canada;</li> <li>2. becoming a reporting issuer in the Province of Ontario, and taking all necessary steps and proceedings (including, if necessary, the clearing with applicable securities regulatory authorities of a prospectus to ensure that the Common Shares will be freely tradeable securities in the offering jurisdictions without restrictions as of the time of closing of the initial public offering, except for those restrictions which may be imposed by the agent(s) of the initial public offering consistent with industry practice and not to exceed 180 days; and</li> <li>3. obtaining conditional approval for the listing of the Common Shares on a recognized Canadian stock exchange; or</li> <li>4. a transaction which provides holders of the Common Shares with comparable liquidity that such holders would have received if the initial public offering occurred, whether by means of a reverse take-over, merger, amalgamation, arrangement, take-over bid, insider bid, reorganization, joint venture, sale of all or substantially all assets,</li> </ol>

	exchange of assets or similar transaction or other combination with a public corporation; and
	5. obtaining conditional approval for the listing of the Common Shares on a recognized Canadian stock exchange;
<b>“Listing Date”</b>	date of completion by the Company of the listing of the Common Shares;
<b>“May PP Unit”</b>	the units to be issued by the Company in conjunction with the May 2011 Private Placement, with each unit entitling the subscriber to one Common Share and one May PP Warrant;
<b>“May PP Warrant”</b>	warrants forming part of the May PP Unit, which entitles the holder thereof to purchase one Common Share for a period of 36 months following a Liquidity Event at a price of \$0.35;
<b>“May 2011 Private Placement”</b>	private placement financing of the Company which closed (in two tranches) on May 20, 2011 and June 3, 2011 respectively, in which the Company issued 3,340,000 May PP Units at a price of \$0.25 per May PP Unit for aggregate gross proceeds of \$835,000;
<b>“Maximum Offering”</b>	aggregate gross proceeds of \$4,000,000;
<b>“MD&amp;A”</b>	management’s discussion and analysis prepared as of March 24, 2011 and is management’s assessment of the operations and the financial results together with future prospects of the Company;
<b>“MEM”</b>	Ministerio de Energia y Minas;
<b>“Minimum Offering”</b>	aggregate gross proceeds of \$2,500,000;
<b>“Minera”</b>	Minera IRL Limited;
<b>“MRL”</b>	Mediterranean Resources Ltd.;
<b>“Newmont”</b>	Newmont Mining Corporation;
<b>“NI 43-101”</b>	National Instrument 43-101 – <i>Standards of Disclosure for Mineral Projects</i> ;
<b>“NI 52-110”</b>	National Instrument 52-110 – <i>Audit Committees</i> ;
<b>“N”</b>	north;
<b>“NE”</b>	northeast;
<b>“NEO”</b>	named executive officer;
<b>“NNE”</b>	north-northeast;
<b>“NNW”</b>	north-northwest
<b>“non U.S. Holder”</b>	a holder that is not a U.S. Holder;
<b>“NP 46-201”</b>	National Policy 46-201 – <i>Escrow for Initial Public Offerings</i> ;
<b>“Offering”</b>	the initial public offering of Units pursuant to this Prospectus;
<b>“Offering Price”</b>	\$0.30 per Unit;
<b>“Optioned Properties”</b>	eight exploration stage properties, including the Liscay, Largetija, Lachoc, Mirko, San Felipe, Sura, Toro Blanco and Cayhua properties acquired by the Company through the exercise of the Geologix Option;
<b>“Plans”</b>	registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and TFSA (as defined herein);
<b>“Preferred Shares”</b>	10,000,000 preferred shares of the Company issuable in series;

<b>“Projects”</b>	collectively, the Liscay Project and Toro Blanco Project;
<b>“Proposed Amendments”</b>	all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof;
<b>“Prospectus”</b>	this preliminary prospectus dated July 8, 2011;
<b>“pueblos”</b>	small groups of buildings in rural areas generally supporting subsistence agriculture for the residents who tend to be family or extended family;
<b>“P-Zone”</b>	the area within the blue polygon on Figure 29;
<b>“Regulations”</b>	regulations under the Tax Act;
<b>“restivity”</b>	electrical-gradient;
<b>“Sacsaquero Formation”</b>	an Eocene-Oligocene-age rock formation located on the Liscay Property which overlies the Tantara Formation and consists of a thick volcanic-sedimentary sequence intercalated with sedimentary rocks. The Sacsaquero Formation principally covers the higher ground in the central to southern portion of the Liscay Project. The most prominent outcrops are along the crests of ridges.
<b>“SEDAR”</b>	System for Electronic Document Analysis and Retrieval;
<b>“SFMC”</b>	Straight Forward Marketing Corporation;
<b>“Stock Option”</b>	option issued under the Stock Option Plan (as defined herein);
<b>“Stock Option Plan”</b>	the Company’s 2011 stock option plan;
<b>“Subsidiary”</b>	Rae Wallace Peru S.A.C.;
<b>“S”</b>	south;
<b>“SW”</b>	southwest;
<b>“SE”</b>	southeast;
<b>“Tantara Formation”</b>	an Eocene-age rock formation located on the Liscay Property consisting of a thick sequence of volcanic rocks intercalated with thin horizons of volcanic-sedimentary rocks. Outcrops are sparse except in deeply incised drainage valleys.
<b>“Tax Act”</b>	<i>Income Tax Act</i> (Canada), as amended, and the regulations thereunder;
<b>“taxable capital gain”</b>	one-half of any capital gain;
<b>“Technical Reports”</b>	collectively, the Liscay Technical Report and the Toro Blanco Technical Report;
<b>“TFSA”</b>	tax-free savings accounts;
<b>“Timberline”</b>	Timberline Resources Corporation;
<b>“Tinajero CA”</b>	consulting agreement between the Company and Andres Tinajero dated May 1, 2010;
<b>“Toro Blanco Concession”</b>	comprised of 900-ha “Tambo Nuevo 15” concession located on the Huachocolpa (27n) map sheet in the Pilpichaca District (Huaytara Province, Huancavelica Department) of southwestern Peru;
<b>“Toro Blanco Project” or “Toro Blanco Property”</b>	the Company’s Toro Blanco gold project;
<b>“Toro Blanco Technical Report”</b>	compliant technical report prepared by John A. Brophy, P.Geol., an independent person of the Company and a “Qualified Person”, as defined in NI 43-101;



<b>“TSXV”</b>	the TSX Venture Exchange Inc.;
<b>“Units”</b>	units issued by the Company pursuant to the Offering, each unit entitling the holder to one Unit Share and ½ of one Warrant;
<b>“Unit Share”</b>	one Common Share of the Company;
<b>“U.S. Holder”</b>	a beneficial owner of Units who is (i) an individual who is a citizen or resident of the United States for U.S. federal income tax purposes; (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States (or treated as such under applicable U.S. tax laws), any state thereof, or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source; or (iv) a trust if (a) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) it has a valid election in effect under applicable law and regulations to be treated as a U.S. person for U.S. federal income tax purposes;
<b>“USRPHC”</b>	United States real property holding corporation;
<b>“U.S. Securities Act”</b>	the United States Securities Act of 1933, as amended;
<b>“VAT”</b>	Value added tax;
<b>“W”</b>	west;
<b>“Warrant”</b>	Common Share purchase warrant of the Company with an exercise price of \$0.40 per Warrant Share for a period of 24 months following the Closing Date;
<b>“Warrant Indenture”</b>	warrant indenture agreement between the Company and Equity Financial dated as of the Closing Date;
<b>“Warrant Share”</b>	the Common Shares issued pursuant to the exercise of a Warrant; and
<b>“WME”</b>	Windy Mountain Explorations Ltd.

## CORPORATE STRUCTURE

### The Company

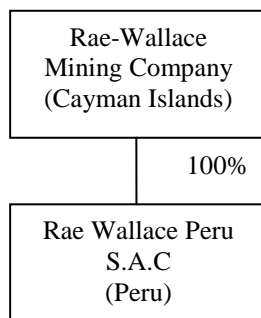
The Company was initially formed under the laws of the State of Idaho in 1916. After several decades of dormancy, the Company reorganized in 1997 as an exploration stage company focused on evaluating, acquiring and exploring mineral prospects with potential for economic deposits of Au and Ag. As part of the reorganization, the Company amended its articles and changed its name to Rae-Wallace Mining, Co. on July 1, 1997, under the *Idaho Business Corporation Act*. The articles of incorporation of the Company were amended on February 16, 2007, to change the name of the Company to Rae-Wallace Mining Company and to increase the authorized capital of the Company to 110,000,000 shares of stock in aggregate. The registered office of the Company is located at 40 Linwood Street, George Town, Grand Cayman, Cayman Islands, BWI, KY1-1104 and the head office of the Company is located at 610 S. Rock Blvd., Sparks Nevada 89431.

In 1998, the investor group controlling Rae-Wallace sold their entire interest to Silver Trend Mining Company for 1,500,000 shares of Silver Trend Mining Company common stock. In 1999, Silver Trend Mining Company sold the Company to a private investment group, which subsequently conveyed proportional interests to individual investors. In January 2007, the Company underwent a change of control with a new management group joining the Company.

On June 13, 2011, the shareholders of the Company approved a plan to domesticate the Company to the Cayman Islands. Pursuant to articles of association and a memorandum of association each dated June 15, 2011, the Company completed the Domestication to the Cayman Islands. The Company now continues its existence as a Cayman Islands company under the *Companies Law (Revised)*.

### Inter-Corporate Relationships

The Subsidiary is the Company's 100% wholly owned, sole subsidiary. The Subsidiary was incorporated under the laws of Peru by articles of incorporation dated March 19, 2010. The chart that follows sets forth the Company's corporate structure as of the date hereof:



## DESCRIPTION OF THE BUSINESS

### Overview

The Company is a mineral exploration company primarily focussed on the exploration, development, evaluation and acquisition of mineral properties. The Company is currently considered to be in the exploration stage and its principal assets and sole material properties are the 100% owned Liscay Project and the Toro Blanco Project, each located in SW Peru.

## **General Development of the Business—Three Year History**

### *Acquisition of Nevada Mining Claims*

On October 30, 2007, the Company entered into an agreement with Trend Resources, LLC, which transferred ownership of various mining claims located in Nevada, USA to the Company in return for 750,000 Common Shares valued at US\$0.20 per Common Share for total consideration of US\$150,000.

### *January 2008 Private Placement Financing*

On January 29, 2008, the Company completed a private placement financing of 7,199,500 Common Shares at a price of US\$0.20 per Common Share for total net proceeds to the Company of US\$1,334,460.

During the remainder of 2008 and 2009 the Company was primarily engaged in identifying and evaluating opportunities for future mineral exploration.

### *Geologix Option and Property Transfer*

The Company exercised the Geologix Option and has earned a 100% interest in the Optioned Properties by fulfilling the following conditions pursuant to the terms of the Geologix Option Agreement:

1. Paid Geologix US\$30,000 on signing of a letter of intent on March 8, 2010;
2. Paid Geologix US\$67,500 for the purpose of renewing the properties' concessions for 2010 on June 8, 2010;
3. The Company delivered 1,000,000 Common Shares valued at US\$250,000 to Geologix on September 30, 2010, with each Common Share accompanied by a half Common Share purchase warrant, with each full Common Share purchase warrant entitling Geologix the right to purchase one additional Common Share of the Company at a price of US\$0.375 per Common Share up until September 30, 2012;

The Company and Geologix formalized the transfer of 100% legal and beneficial interests Optioned Properties by the Concessions and Property Transfer Agreement.

Portions of the Optioned Properties are subject to a 2% precious metals net smelter royalty and a 1% base metals net smelter royalty payable to Newmont Peru S.A.

Pursuant to the Geologix Option Agreement, the Company paid Geologix US \$30,000 representing 20% of the proceeds received from Fronteer pursuant to the Fronteer Option Agreement.

### *Fronteer Financing and Option*

Pursuant to the Fronteer Subscription Agreement between the Company and Fronteer, the Company issued Fronteer 2,000,000 Common Shares and 1,000,000 Common Share purchase warrants exercisable at a purchase price of US\$0.375 per Common Share until July 23, 2012 for gross proceeds of US \$500,000.

The Company also entered into the Fronteer Option Agreement with Fronteer. In consideration of the payment of US \$150,000 from Fronteer to the Company, the Company granted the Fronteer Option to acquire a 51% interest in up to two of the Optioned Properties. Under the terms of the Fronteer Option Agreement, Fronteer (which is now Pilot Gold Inc.) may exercise the Fronteer Option by funding exploration expenditures on up to two of the Optioned Properties in an amount equal to three times the previous expenditures incurred on the selected Optioned Property over the course of three years from the date of election to exercise the Fronteer Option.

#### *December 2010 Private Placement Financing*

The Company successfully raised \$723,250 through the December 2010 Private Placement which closed (in two tranches) on December 7, 2010 and December 30, 2010 respectively. Terms of the December 2010 Private Placement were \$0.25 for one PP Unit, with each PP Unit consisting of one Common Share, one PP Warrant, and one Liquidity Entitlement. Each PP Warrant entitles its holder to purchase one Common Share for a period of 24 months following a Liquidity Event at a price equal to the lesser of \$0.50 and the exercise price of any warrants issued in connection with a Liquidity Event. Each Liquidity Entitlement entitled the holder to one additional Common Share for each 10 PP Units purchased under the December 2010 Private Placement if, by June 7, 2011, the Company did not complete a Liquidity Event. The Company did not complete a Liquidity Event by June 7, 2011 and therefore, on June 7, 2011, the Company issued an aggregate of 289,300 Common Shares to the holders of the Liquidity Entitlements in accordance with the terms of the December 2010 Private Placement and the certificates evidencing the Liquidity Entitlements. The Company also issued 13,000 PP Broker Warrants in conjunction with the December 2010 Private Placement, with each PP Broker Warrant entitling its holder to purchase one PP Unit at a price of \$0.25 per PP Unit for a period of 24 months following a Liquidity Event.

#### *Domestication to the Cayman Islands*

On June 15, 2011, the Company completed its Domestication to the Cayman Islands. The Company decided to complete the Domestication as substantially all of the business operations of the Company are conducted outside of the United States. Additionally, because the Company expects that future opportunities for its business will also be outside of the United States, it has concluded that the United States is not a suitable jurisdiction through which to hold its assets.

As a result of the Domestication, the Company has continued its existence without interruption as a Cayman Islands company rather than an Idaho corporation. The memorandum and articles of association of the Company effective June 15, 2011 have become the governing organization documents.

#### *May 2011 Private Placement Financing*

The Company successfully raised \$835,000 through the May 2011 Private Placement which closed (in two tranches) on May 20, 2011 and June 3, 2011 respectively. Terms of the May 2011 Private Placement were \$0.25 for one May PP Unit, with each May PP Unit consisting of one Common Share and one May PP Warrant. Each May PP Warrant entitles its holder to purchase one Common Share for a period of 36 months following a Liquidity Event at a price equal to \$0.35.

## LISCAY PROPERTY

Information in this section is summarized or extracted from the NI 43-101 compliant Liscay Technical Report prepared by John A. Brophy, P. Geo, an “Qualified Person”, as defined in NI 43-101. The Liscay Technical Report was prepared in accordance with the requirements of NI 43-101.

Portions of the following information are based on assumptions, qualifications and procedures which are set out only in the full Liscay Technical Report. For a complete description of the assumptions, qualifications and procedures associated with the following information, reference should be made to the full text of the Liscay Technical Report which is available for review on the SEDAR located at [www.sedar.com](http://www.sedar.com). Alternatively, the Liscay Technical Report may be inspected during normal business hours at the offices of the Company at 610 S. Rock Blvd., Sparks, Nevada, and at the offices of the Company’s legal counsel, Irwin Lowy LLP, at Suite 1010 – 130 Adelaide Street West, Toronto, Ontario, during the period of distribution of securities offered by this Prospectus and for 30 days thereafter.

### Property Description and Location

The 11,800-ha Liscay Project in southwest Peru, centered 13.12° South Latitude and 75.80° West Longitude, lies approximately 170 km SE of Lima, the nation’s capital, and consists of the Liscay North Concessions totaling 8,800 ha, and a southern claim group comprising the Liscay South Concessions totaling 3,000 ha. The Liscay Project is in the Provinces of Yauyos and Chinchá. The Liscay Concessions span parts of the Districts of Azangaro, Madean, Hungascar, San Pedro de Huacarpana, Chavin and San Juan de Yanac. The Liscay Project is neither patented nor surveyed, as there is no legal requirement for this in Peru. The Concessions are not contiguous, but are separated by one to two km of intervening ground that was staked by a company called Feroaluminios Peru No.4 SAC.

Figure 1 is a claim map of the Liscay Project prepared by the MEM on August 31, 2010.

Figure 2, shows the claims, topography, roads and exterior coordinates and Figure 3 is a map of the Liscay Project showing geology, alteration and the widespread distribution of Au/Ag-mineralized quartz veins discovered on the Liscay Project.

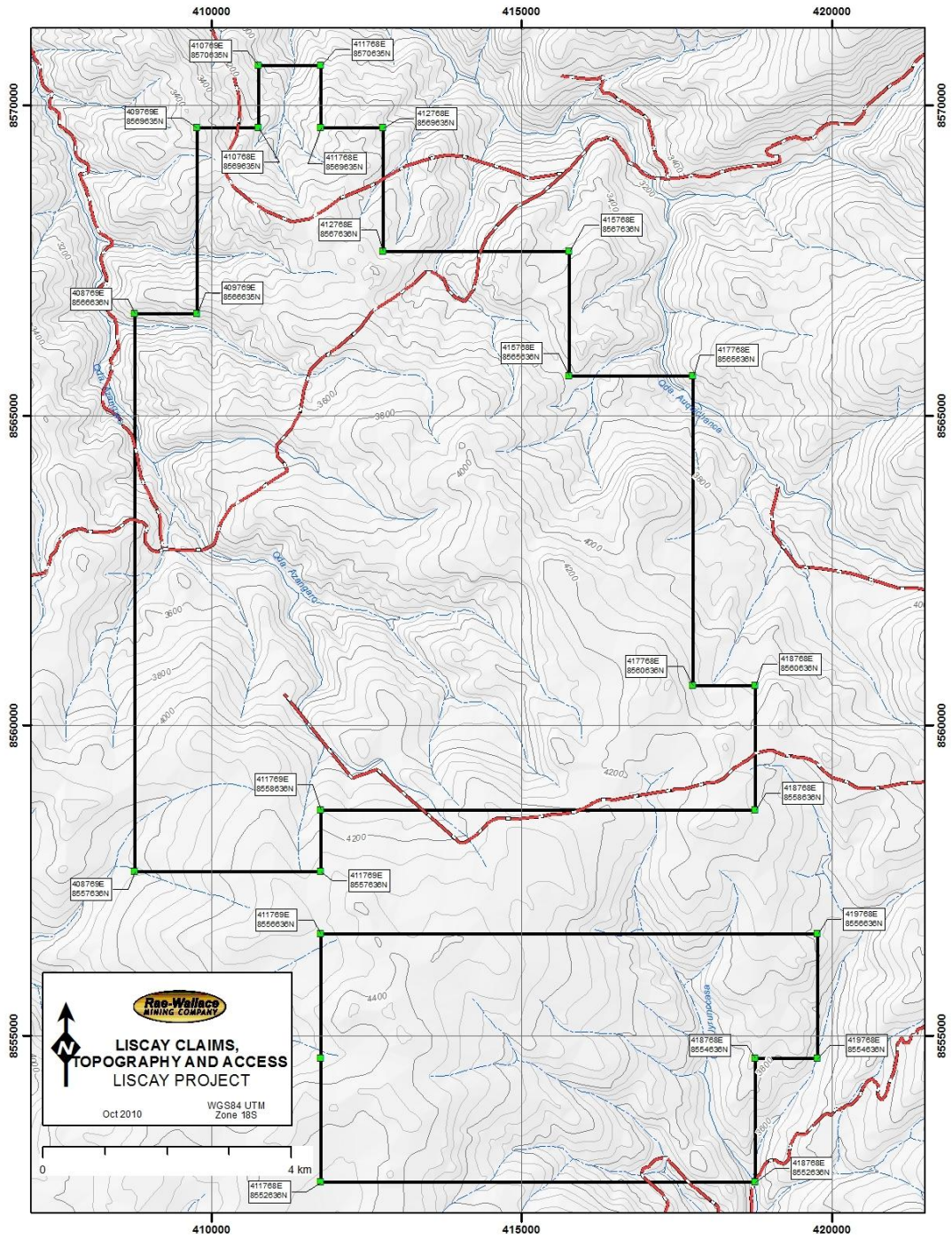
Registration data for the claims are compiled in Table 1. Full title to the Liscay Concessions has been transferred to the Company.

The Liscay Concessions are currently in good standing. Prior to June 30, 2011, claim fees of US\$3.00 per ha were paid to maintain the Liscay Concessions in good standing for an additional year. This is the only obligation imposed by Peruvian mining law to maintain concessions in good standing for the first seven years after the date of original staking. Thereafter, certain annually-escalating penalties are applied if certain expenditures for exploration or exploitation are not committed (and reported) on the property. Such penalties will not be applied to the Liscay Concessions before the years 2014 and 2015, and may not be applied at all if adequate exploration work is documented.

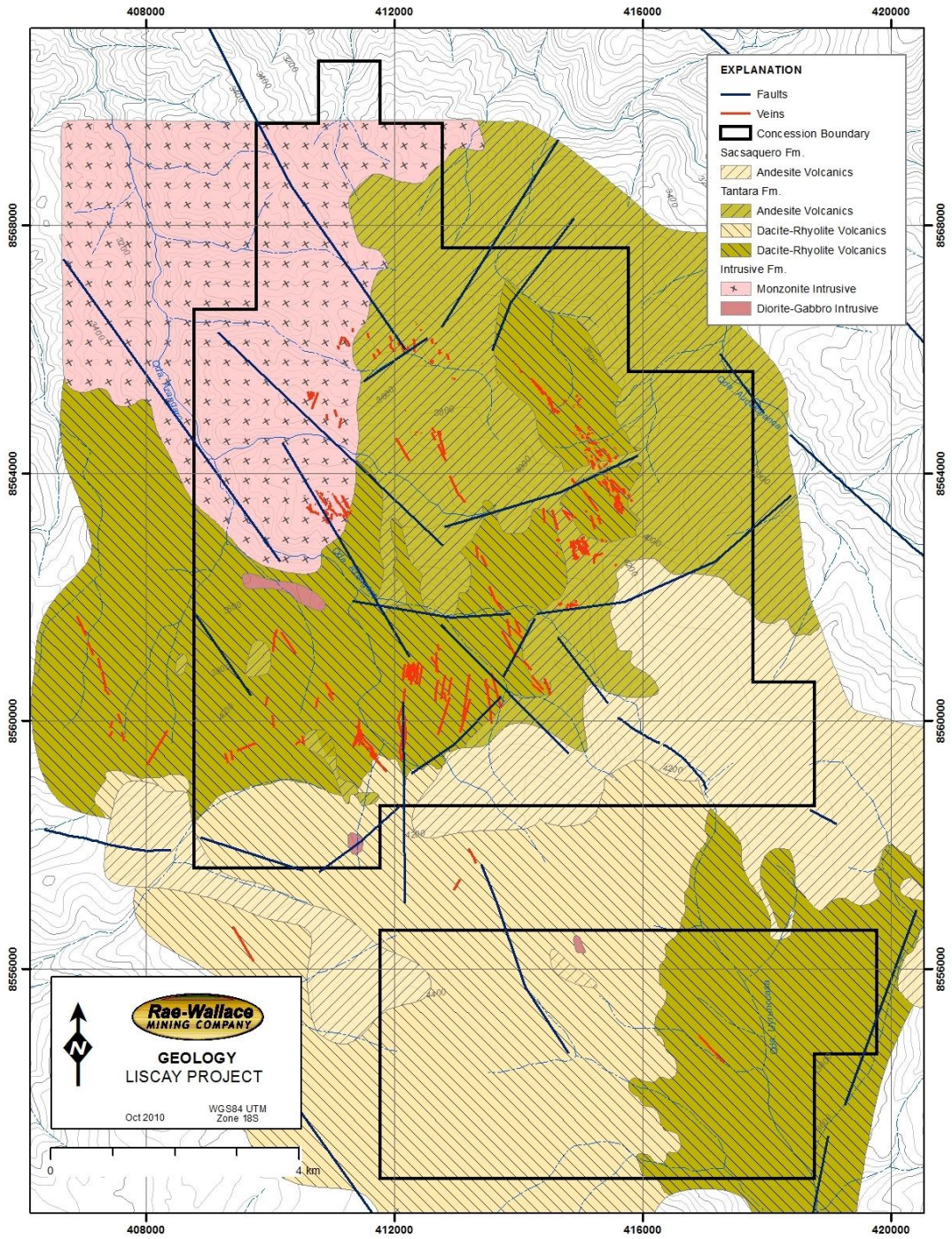
There are no specific licenses or permits required for routine exploration of mineral properties in Peru, although there are common-sense guidelines regarding community relationships. However, once a project has advanced to the drill stage or beyond, an EIS involving water quality, flora and fauna, archeological features, environmental issues, social benefits, surface rights, community consultations, and a reclamation plan is required in order to proceed with drilling or more advanced exploration work. An EIS was completed in 2008 in support of the Geologix drilling program. The Company is proceeding under the assumption that the permit to drill has expired, and a new EIS will have to be completed to obtain authorization for additional drilling. Given that there is a previous EIS to build on, a subsequent EIS can probably be completed and authorized within three to four months. Other than the need to complete an EIS for permission to drill, management is not aware of any environmental liabilities affecting the Liscay Property.



Figure 2: Topography, Access, and WGS 84 Claim Coordinates



**Figure 3: Geology and Mineralized Veins**





**Table 1: Liscay Concessions, Registration Data**

<b>Claim Name</b>	<b>Area (Has)</b>	<b>Code</b>	<b>Date filed</b>	<b>Dept.</b>	<b>Notice Date</b>	<b>Date recorded Mining Registry</b>	<b>Public Registry Recording Data</b>
Liscay 1	1000	01-05978-07	11/14/07	Lima	12/6/07	8/29/08	12195849
Liscay 2	1000	01-06190-07	11/26/07	Lima / Ica	2/18/08	8/28/08	12195366
Liscay G3	1000	01-06191-07	11/26/07	Ica / Lima	2/7/08	8/29/08	12195746
Liscay 4	1000	01-06230-07	11/29/07	Lima	1/11/08	8/29/08	12195717
Liscay 5	1000	01-06231-07	11/29/07	Lima	1/7/08	8/29/08	12195697
Liscay 6	1000	01-06431-07	12/10/07	Lima	1/28/08	2/10/10	12437912
Liscay 7	800	01-06432-07	12/10/07	Ica / Lima	1/28/08	9/1/08	12196815
Liscay 8 1000	1000	01-00399-08	1/25/ 08	Lima	3/28/08	2/11/10	12438282
Liscay 9 1000	1000	010235208	4/1/08	Lima / Ica	11/25/08	2/11/10	12437777
Liscay S 1 1000	1000	01-00798-08	2/1/08	Ica / Lima	2/28/08	8/26/08	12194178
Liscay S 2 1000	1000	01-00800-08	2/1/08	Ica	2/28/08	8/19/08	12190152
Liscay S 3 1000	1000	01-00799-08	2/1/08	Ica	2/28/08	8/19/08	12190327

**Accessibility, Climate, Local Resources, Infrastructure and Physiography**

The Liscay Project is approximately 244km from Lima and is a five hour drive along paved and gravel roads.

Lunahuana is the largest city near the Liscay Project and is a local (as opposed to international) vacation resort where residents of Lima can escape the long and cloudy winter months to enjoy fair cuisine, sunshine, and white-water rafting. There are quite a few good hotels and restaurants in Lunahuana.

Azangaro is a village of about 1000 persons situated at the western margin of the Liscay North Concessions of the Liscay Project. Its location is shown in Figure 4.

From San Geronimo to Azangaro, and beyond via the rudimentary roads crossing the Liscay Project, four-wheel-drive vehicles are required for access.

In the general area of Peru where the Liscay Project is located, there is a rainy season lasting from December through March during which early mornings are generally clear, but late mornings and afternoons are often greeted by torrential rainfalls punctuated by hailstorms and fog that can last well into the evening. The remainder of the year

is the “dry season” during which only intermittent rains are encountered. Because of the relatively good access to the Liscay Project, it is possible to work during the rainy season, although not as productively as during the dry season. Temperatures seldom fall below 5 degrees Celsius and seldom rise above 21 degrees Celsius. The average annual temperature is 13 degrees Celsius.

The people of the Azangaro region seek out a subsistence livelihood grazing livestock (cows, sheep and goats) on the bunchgrass that grows at higher elevations and harvesting tuber crops (potatoes, turnips, etc) at lower elevations (<4000 m above sea level) for local consumption. Apart from the bunchgrass at higher elevations and small agricultural plots and eucalyptus stands at lower elevations, the vegetation can best be described as sparse to absent.

Figure 4: Trajectory, Lima to Liscay



Because of its proximity to Lima, “regional” resources are abundant. Locally, in Azangaro and a few smaller near-by pueblos, there is an ample supply of unskilled workers available for trenching, sampling, road maintenance, and similar manual support work. Infrastructure on the Liscay Property is basically limited to the existence of crude access roads put in by Geologix to support exploration and drilling programs. Several near-by pueblos can provide living facilities with electricity and non-potable water. A rudimentary telephone service is available, but not reliable.

The principal topographic features are northerly to westerly trending branching drainage patterns and ridges. Elevations range from 3,100 m in the canyons to 4,300 m along the highest ridges. Canyons are deeply incised, but the central area of the Liscay Property, where most work has been done, can be described as “rolling hills” with local relief of a hundred m.

## **History**

There is no prior history of significant exploration or mineral discoveries on the Liscay Project or on adjacent terrain prior to exploration by the Geologix/Newmont JV by Geologix and Newmont pursuant to an agreement dated March 31, 2008. The Liscay Property, and the other properties acquired by the Company in Peru, were staked on the basis of results obtained from regional BLEG sediment surveys and standard stream sediment sampling surveys conducted by the joint-venture partners.

## **Geological Setting**

The geology of the Andean highlands of central Peru is dominated by a series of parallel, NW-trending belts of complicated geology created by two large pieces or plates of the earth’s crust colliding as part of a geological process referred to as plate tectonics. The western plate, called the Pacific Plate, slid underneath the eastern plate or the South American plate generating compressive forces that formed these parallel, geologically complex belts. This collision event began during the Cenozoic Era, a geological time unit that began 65 Ma ago, and continues today. The central Peru region is underlain by a belt of Cenozoic (Tertiary) volcanic rocks (young rocks) overlying Paleozoic through Mesozoic sedimentary rocks (old or older rocks). The older rocks are locally interbedded with the younger volcanic rocks as a result of episodic crustal scale extension alternating with compression. The older rocks and the younger volcanic rocks were intensely deformed by at least two compressive events in mid-Cenozoic time. High angle reverse faulting, where one crustal block rides on top of another along a steep fault occurred in response to regional compression induced by flattening of the dynamic contact between the Pacific and South American plates.

The geological events described in the previous paragraph caused the western margin of the South American plate to rise rapidly, geologically speaking, to form the early Andes Mountains. Subsequently, rivers, streams, creeks, and gullies, collectively referred to as drainages, cut deeply along the western slope of the new mountain range below a regional plateau called the altiplano, found at elevations above 3,500 m. At this elevation, the region around the Liscay Property forms a moderately rolling landscape between principal drainages. Elevations in central Peru vary over a short distance from sea level on the coast to over 5,000 m on the peaks of the numerous volcanoes that dot the altiplano.

Associated with the collision of the crustal plates and mountain building, hot fluids, called hydrothermal fluids, rose through the geologically complex parallel belts and formed a number of base and precious metals deposits along what is referred to as the Miocene Metallogenic Belt in the central Andes. These deposits or systems, which range in age from about 6 to 20 Ma, are hosted by older rocks of late Triassic, Jurassic and Cretaceous age, and by younger volcanic and intrusive rocks of late Cenozoic age. Within this mineral belt are found a variety of mineral deposit types including precious and base metal veins, mineralized porphyry systems and skarn deposits. These hydrothermal fluids are ‘chemically charged’, e.g. in this case, they are hot, acidic and carry lots of dissolved components, sometimes including metals. When these hot acidic fluids interact with cooler rocks closer to the earth’s surface they change or alter the original rock. Sometimes components are added, other times components are removed from the original rock and sometimes components are redistributed. When silica is added, the rock is termed silicified or some variant of the term. If the fluid breaks down pre-existing minerals it can produce clay, this is referred to as argillic alteration or some variant of the term. Other forms of alteration include *sericitization*, and variations of the term, which involves both the breakdown of pre-existing minerals along with the introduction of

new components. Variations in the intensity of alteration are important in vectoring toward potentially better mineralized areas. As the fluid cools it can drop out the metals or redistribute and concentrate metals thus forming mineral deposits of potential economic value.

Figure 5: Liscay Regional Geology

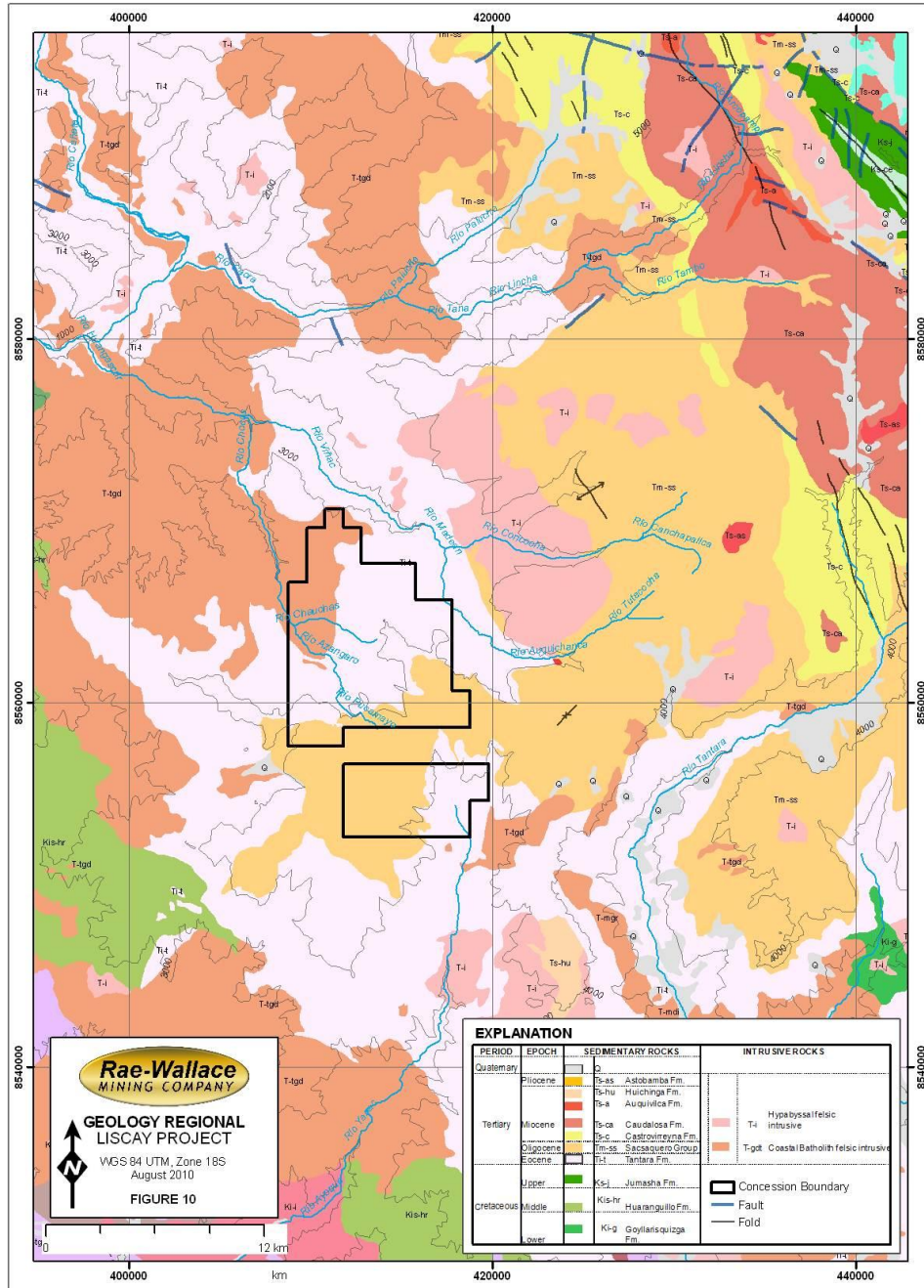
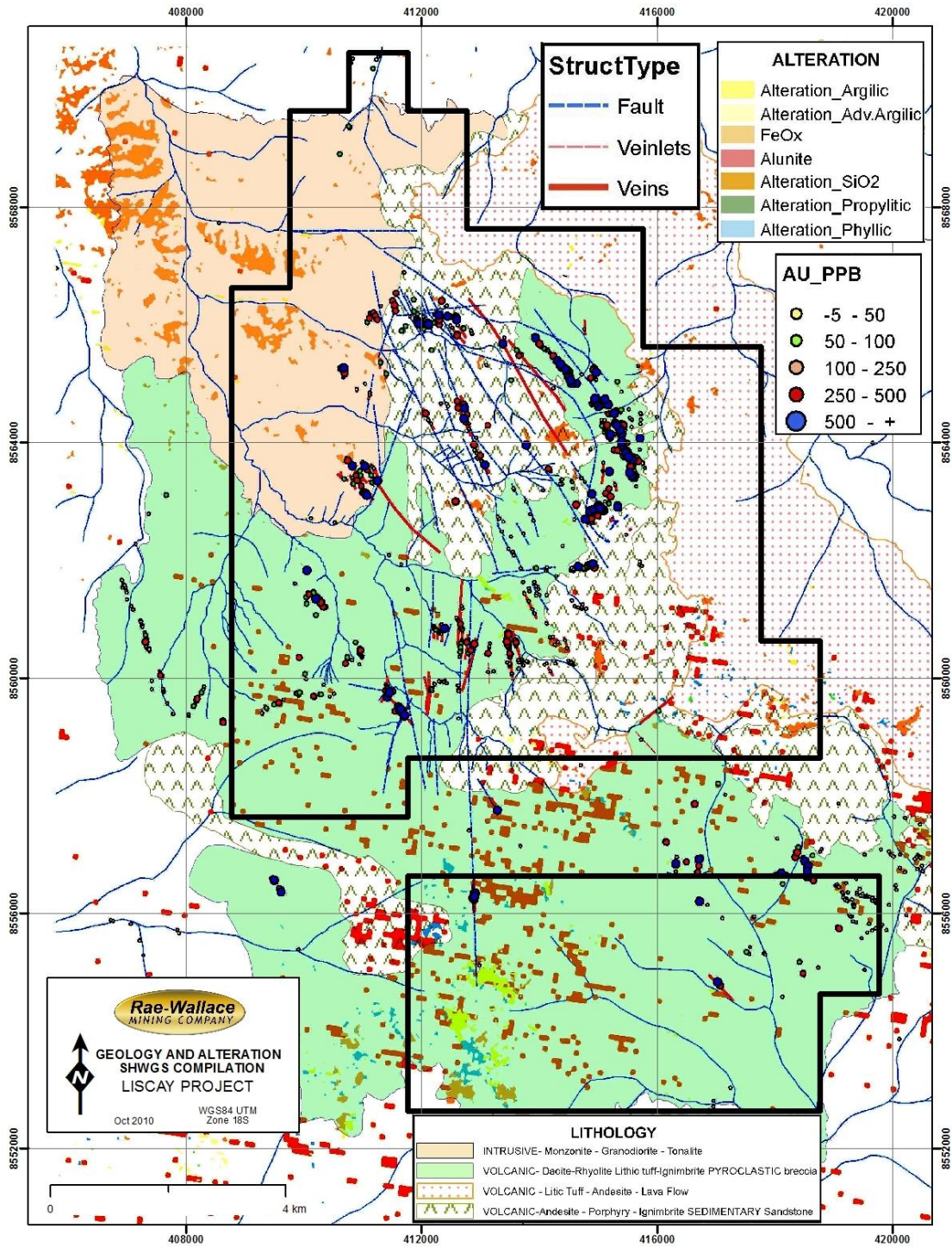


Figure 6: Geology, Structure and Alteration



The Liscay Project is underlain by volcanic and related sedimentary rocks of lower Tertiary-age, and by intrusive rocks of the Coastal Batholith (Upper Cretaceous-age to Lower and Middle Tertiary-age). Basement rocks in the region consist of sedimentary rocks of Cretaceous-age.

Four principal units are exposed in the immediate area of the property: alluvium/colluviums; Quaternary-age unconsolidated clay, silt, sand, and gravel deposited by drainages or dry erosional processes which form a blanket covering large portions of the Liscay Project and masking the underlying rock units; the Tantara Formation; the Sacsaquero Formation and intrusives of the Coastal Batholith.

The Andean Trend is reflected in the structural geology of the Liscay Property. The structural fabric, which includes fold axes and regional faults is mainly oriented in a NNW direction. These structures are perpendicular to the principal direction of plate compression, resulting in normal or reverse faulting with little lateral movement. Complementary E-to-NE trending structures are transverse faults that commonly have a lateral component of displacement.

Mineralized quartz veins, principally hosted in the older Tantara volcanic sequence, are mainly emplaced in N- to NNW-trending structures corresponding to the Andean trend described above, although some mineralized veins strike east to NE.

### Exploration

Between October 18, 2007 and August 26, 2008, twelve project geologists working for Geologix supervised the collection of 2,484 rock samples from the Liscay Project. Most of the samples were chips or channels collected from outcrops. The rocks were analyzed for Au and Ag (assay) and a suite of 49 additional elements (“ICP”). Au distribution is summarized in Table 2 and Ag distribution is summarized in Table 3.

**Table 2: Au Distribution, Gelogix Rock Sampling**

<b>From</b>	<b>To</b>	<b>No. of samples</b>	<b>Percent of total</b>
10,000 ppb Au	76,000 ppb Au	9	0.36%
1,000 ppb Au	<10,000 ppb Au	94	3.78%
500 ppb Au	<1000 ppb Au	82	3.30%
200 ppb Au	<500 ppb Au	159	6.40%
100 ppb Au	<200 ppb Au	202	8.05%
50 ppb Au	<100 ppb Au	294	11.84%
trace	<50 ppb Au	1644	66.18%

**Table 3: Ag Distribution, Geologix Rock Sampling**

<b>From</b>	<b>To</b>	<b>No. of samples</b>	<b>Percent of total</b>
1,000 ppm Ag	1205 ppm Ag	5	0.20%
100 ppm Ag	<1,000 ppm Ag	62	2.50%



50 ppm Ag	<100 ppm Ag	70	2.82%
20 ppm Ag	<50 ppm Ag	157	6.32%
10 ppm Ag	<20 ppm Ag	173	6.96%
5 ppm Ag	<10ppm Ag	230	9.26%
trace	<5 ppm Ag	1787	71.9%

The above tables show that approximately 30% of the rock samples contain geochemically anomalous concentrations of Au and Ag. Approximately 6% of the rock samples contain economically interesting concentrations of Au and Ag.

The tables show that there are similar distribution patterns between Au and Ag, reflecting the fact that higher Au assays are frequently associated with higher Ag assays. The author has ascertained that the correlation factor between Au and Ag in 841 samples carrying  $\geq 50$  ppb Au is 0.5:1, which is not a perfect correlation (1:1), but is quite high.

The median Au-to-Ag ratio in 840 rock samples containing geochemically anomalous Au ( $\geq 50$  ppb) is 1:50. The current Au-to-Ag price ratio is 1:65. These ratios demonstrate that the mineralization has Ag potential that is almost equivalent to the Au potential, notwithstanding presently unknown metallurgical factors that might augment or diminish the significance of the Ag mineralization.

A review of the ICP assay data shows that geochemically anomalous Au ( $\geq 50$  ppb) is associated with elevated values of Bi, Cu, Hg, Mo, Pb, and Sb as shown in Table 4. These are typical pathfinder elements for epithermal Au (and/or Ag-Cu) deposits. The large difference between the average and median values for all pathfinder elements indicates that the data are skewed by very high values in a few samples. The median values give results that are more statistically meaningful. Specifically, median values for Pb and Hg are almost five times higher in the “Au-anomalous population” than in the “background population”, whereas the contrast is not so marked for the other pathfinder elements. This implies that in the evaluation of geochemical information from the secondary environment (soils, stream sediments, BLEG samples, etc), Au anomalies associated with Pb and/or Hg anomalies should be accorded a high priority for follow-up exploration.

**Table 4: Pathfinder Associations in Rock Samples**

Au ppb	Bi ppm	Cu ppm	Hg ppm	Mo ppm	Pb ppm	Sb ppm
$\geq 50$ ppb N = 840	Median 0.41  Average 9.31	Median 34.6  Average 117.0	Median 0.37  Average 1.58	Median 7.11  Average 49.0	Median 170  Average 715	Median 2.65  Average 21.0
< 50 ppb N = 1644	Median 0.19  Average 2.24	Median 14.1  Average 45.6	Median 0.08  Average 0.33	Median 2.26  Average 11.9	Median 20.2  Average 198.4	Median 1.0  Average 3.5

Figures 11 through 13 show the distribution of rocks collected on the Liscay Property together with symbolic representations quantifying the content of Au, Ag and Pb respectively. An additional figure, 14, combines the previous four figures and shows the outline of the notional caldera-like feature, discussed in the next paragraph.

A prominent characteristic that appears in these three figures, both from outcrop patterns and coinciding anomaly patterns, is a crudely circular feature with a diameter of six to eight km which might be the surface expression of a volcanic feature called a caldera margin. Elsewhere in the world, caldera margins are known to host both low-sulphidation Au deposits and high-sulphidation Au deposits.

An orientation soil-sampling survey was completed over part of the NE zone of the Liscay Project. A total of 190 soil samples were taken at 25-m intervals along four lines separated by 500 to 1,000 m (Figures 7 and 8). Soils were assayed for Au, Ag and 45 other elements. The orientation soil survey successfully identified known mineralized structures (highly anomalous soil assays of  $> 50$  ppb Au obtained), and identified the down-slope trail of mineralized structures for distances of 200 to 300 m away from the source (moderately anomalous results of 20 to  $\leq 50$  ppb Au obtained). The orientation soil survey also identified Au anomalies up-slope of known showings that have not yet been traced to a source. Since sediment and soil tend to move down-slope and there are anomalies up-slope from a source, one explanation is that there is another, yet undiscovered source.

With the exception of Pb, Au appears to be its own best pathfinder in soils. Ag results and other elemental results were flat.

Figure 7: Soil-Sampling Lines, NE Zone

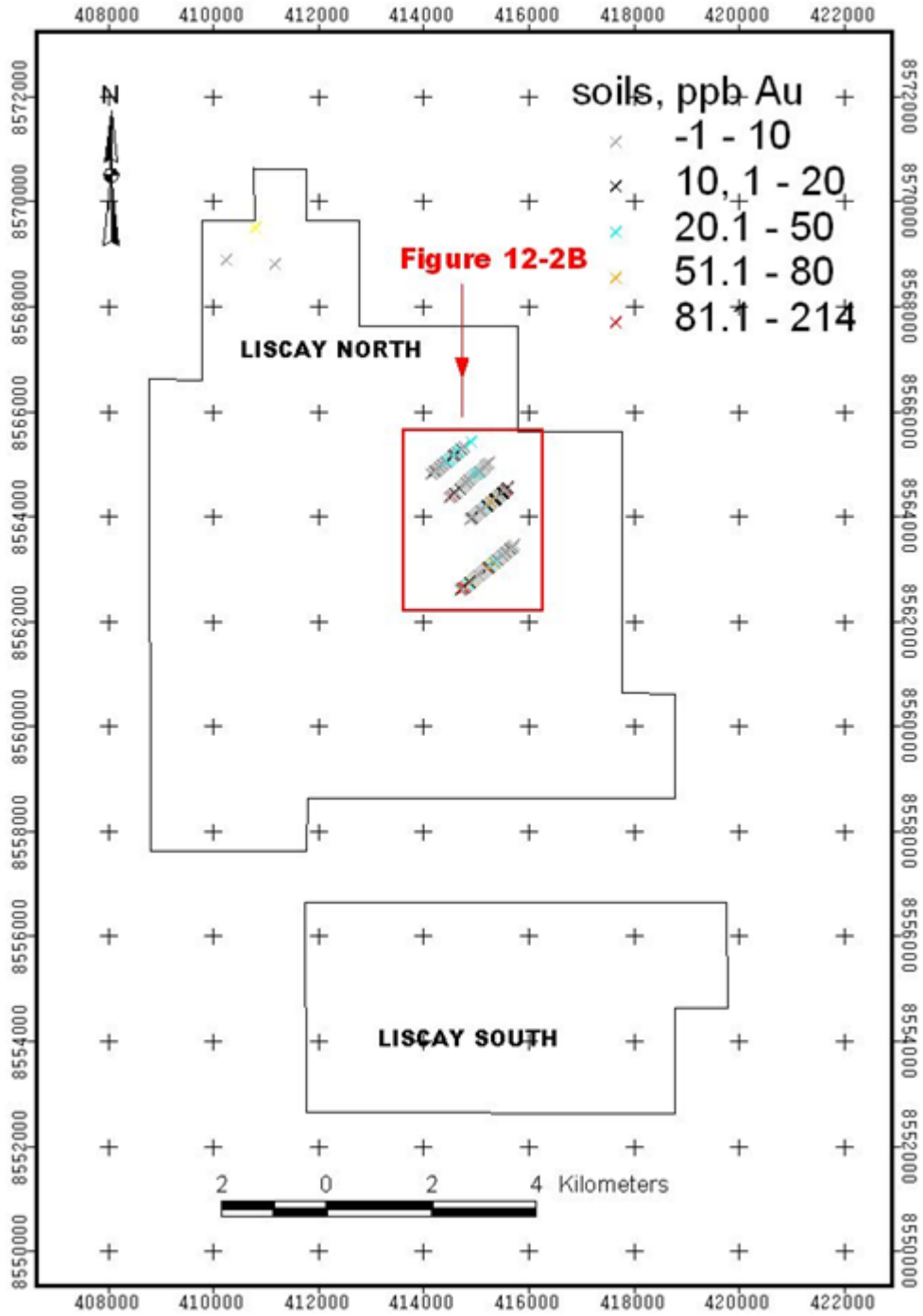
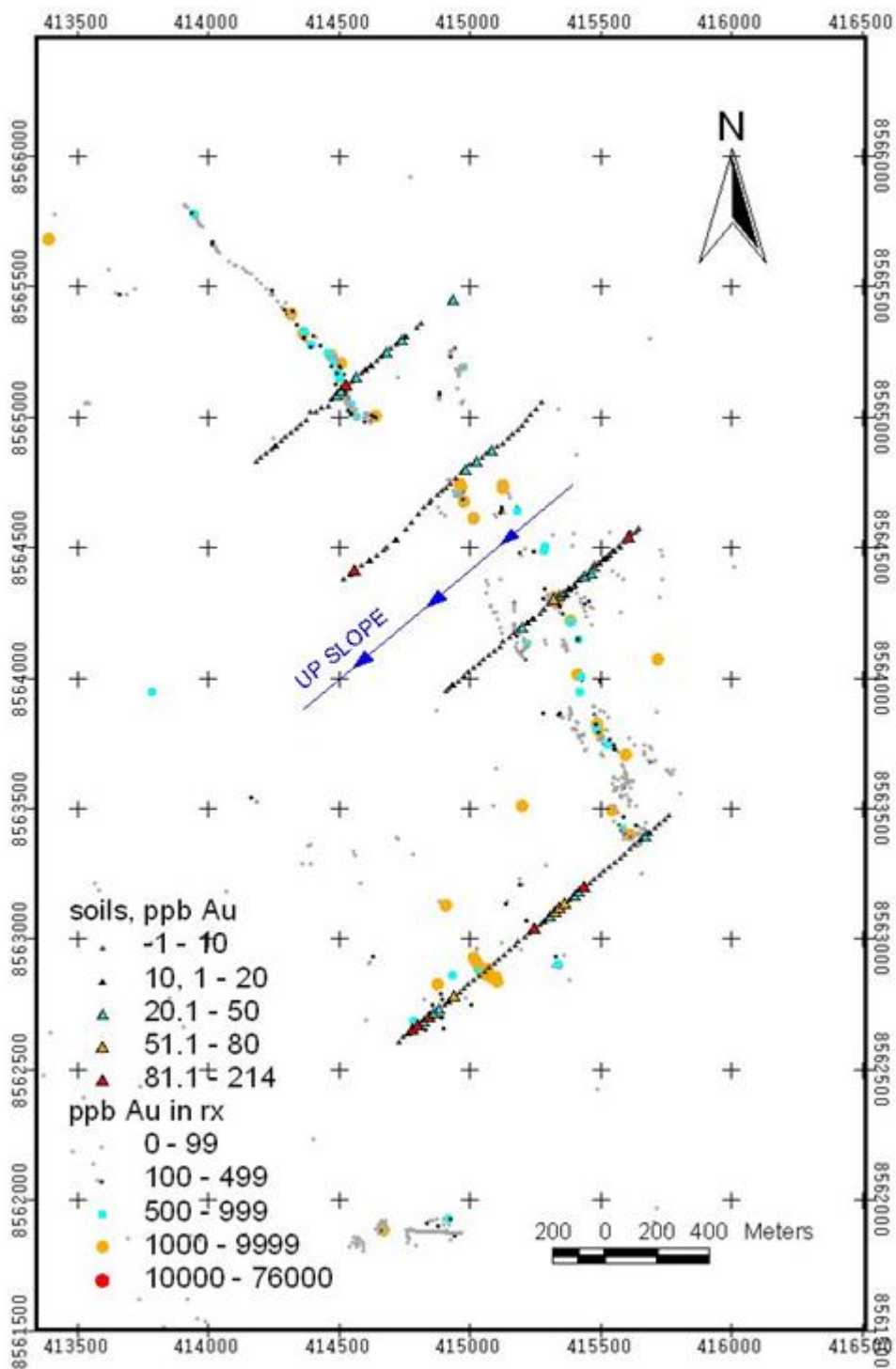


Figure 8: Soil Sampling (Detailed), NE Zone



## **Geophysical Surveying**

Orientation-scale geophysical surveys were conducted on the NE and SW zones of the Liscay Project by Fugro in two campaigns between May 22, 2008 and September 20, 2008. The orientation surveys involved a total of 13.5 line km of induced polarization surveying and 12.0 line km of resistivity surveying divided between the NE zone (six lines) and the SW zone (7 lines) as shown in Figures 9 and 10. The objective of the surveys was to evaluate geophysical responses of surface targets to a shallow depth.

Fugro concludes that resistivity responses correlate well with down-dip extensions of silicified mineralized zones located on surface, but that induced polarization responses are generally flat. Fugro suggests that the geophysical signature, when considered together with the geological information, is consistent with that of a low-sulphidation epithermal system and recommended drilling six holes to test the down-dip extension of surface mineralization based mainly on the resistivity responses.

**Figure 9: Chargeability Responses, NE and SW Zones**

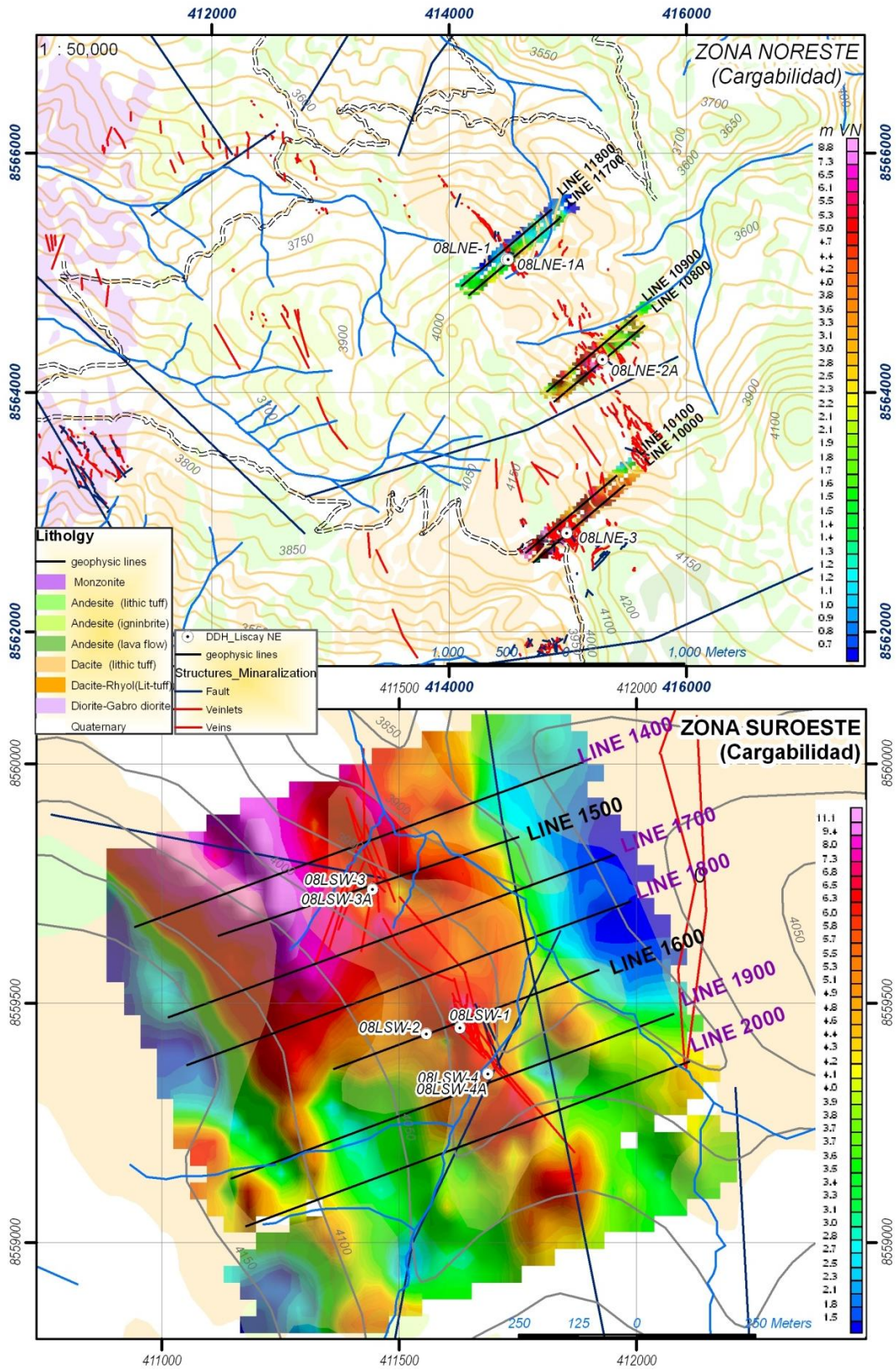


Figure 10: Resistivity Responses, NE and SW Zones

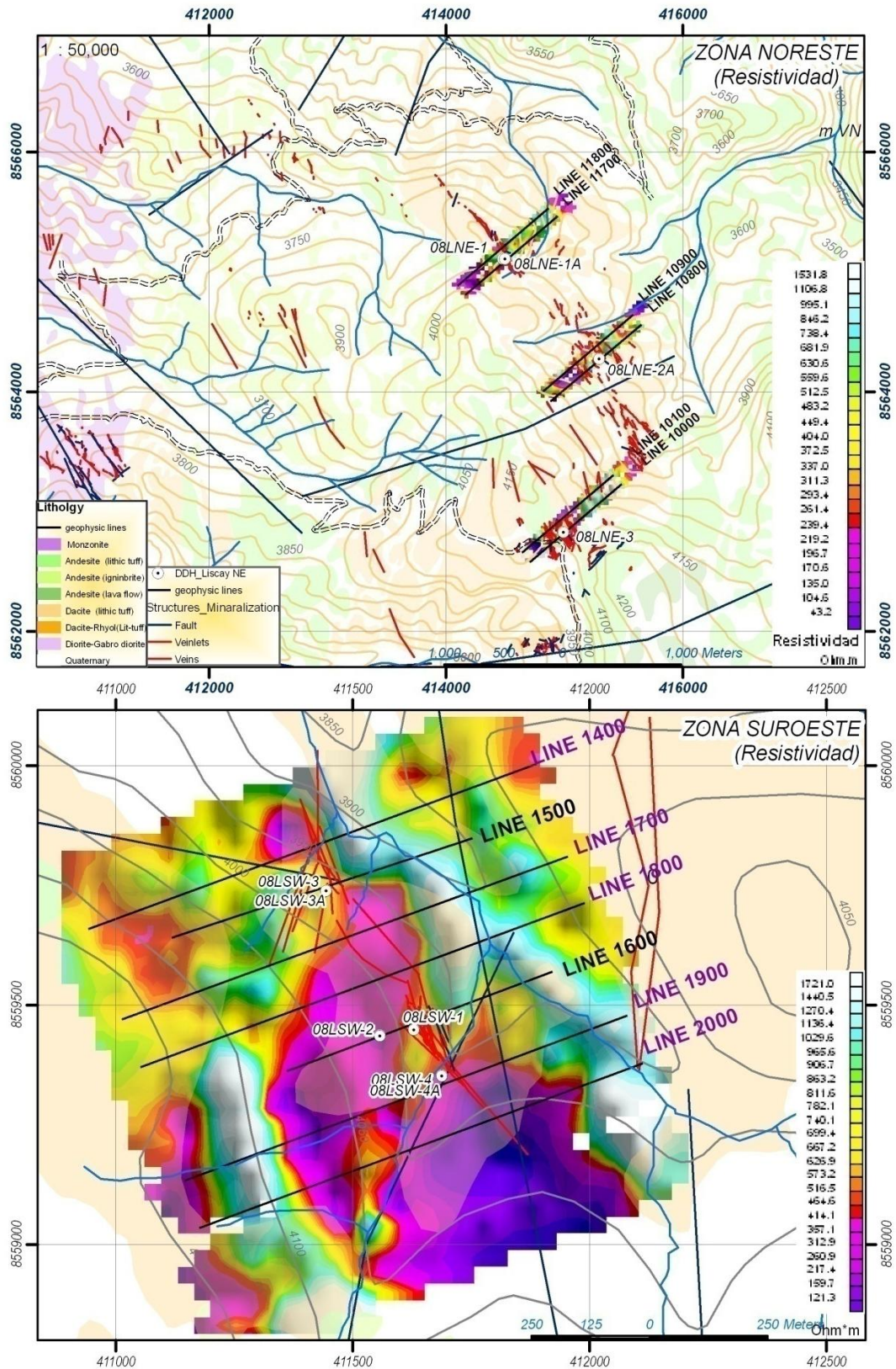


Figure 11: Au in Rocks

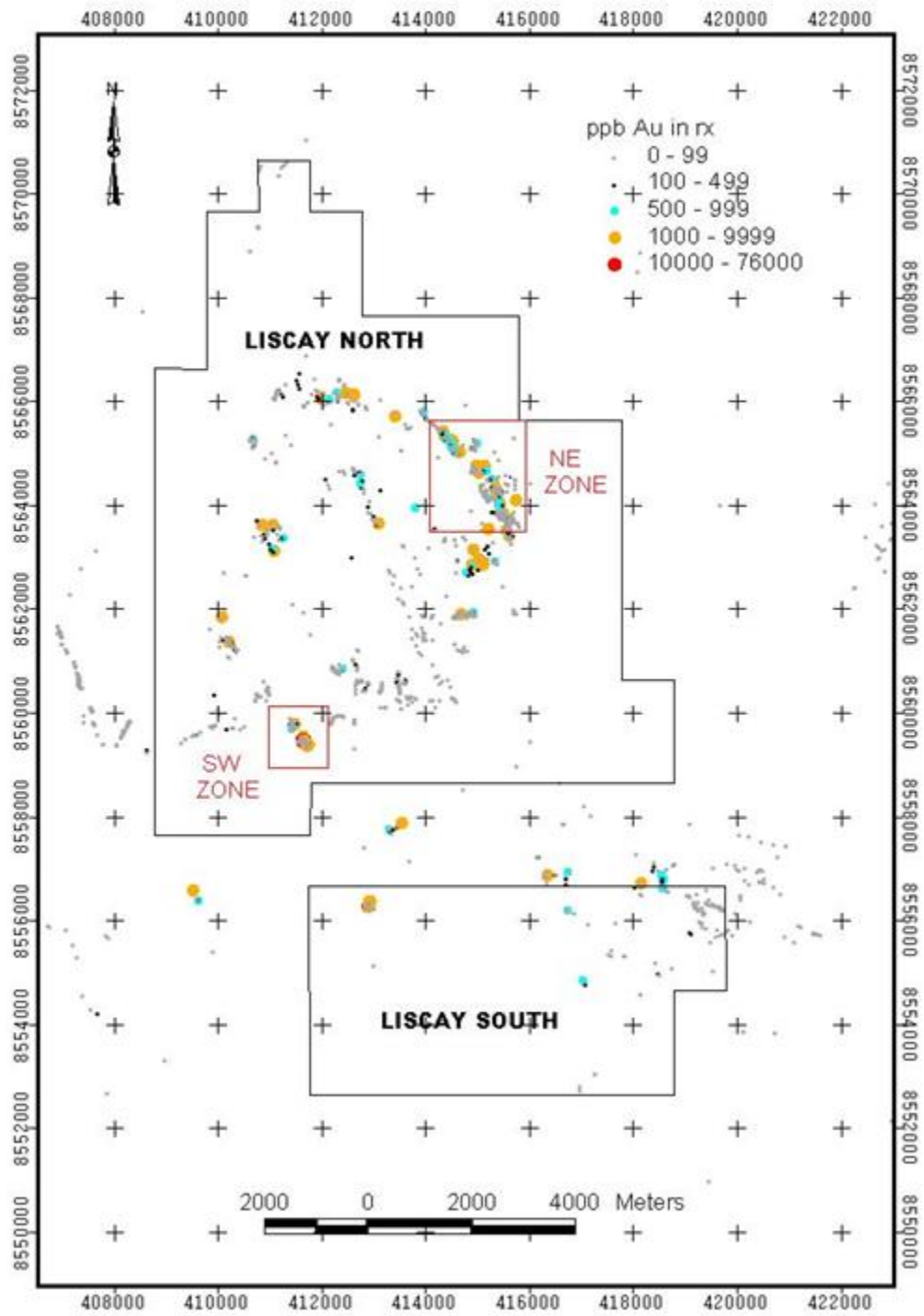




Figure 12: Ag in Rocks

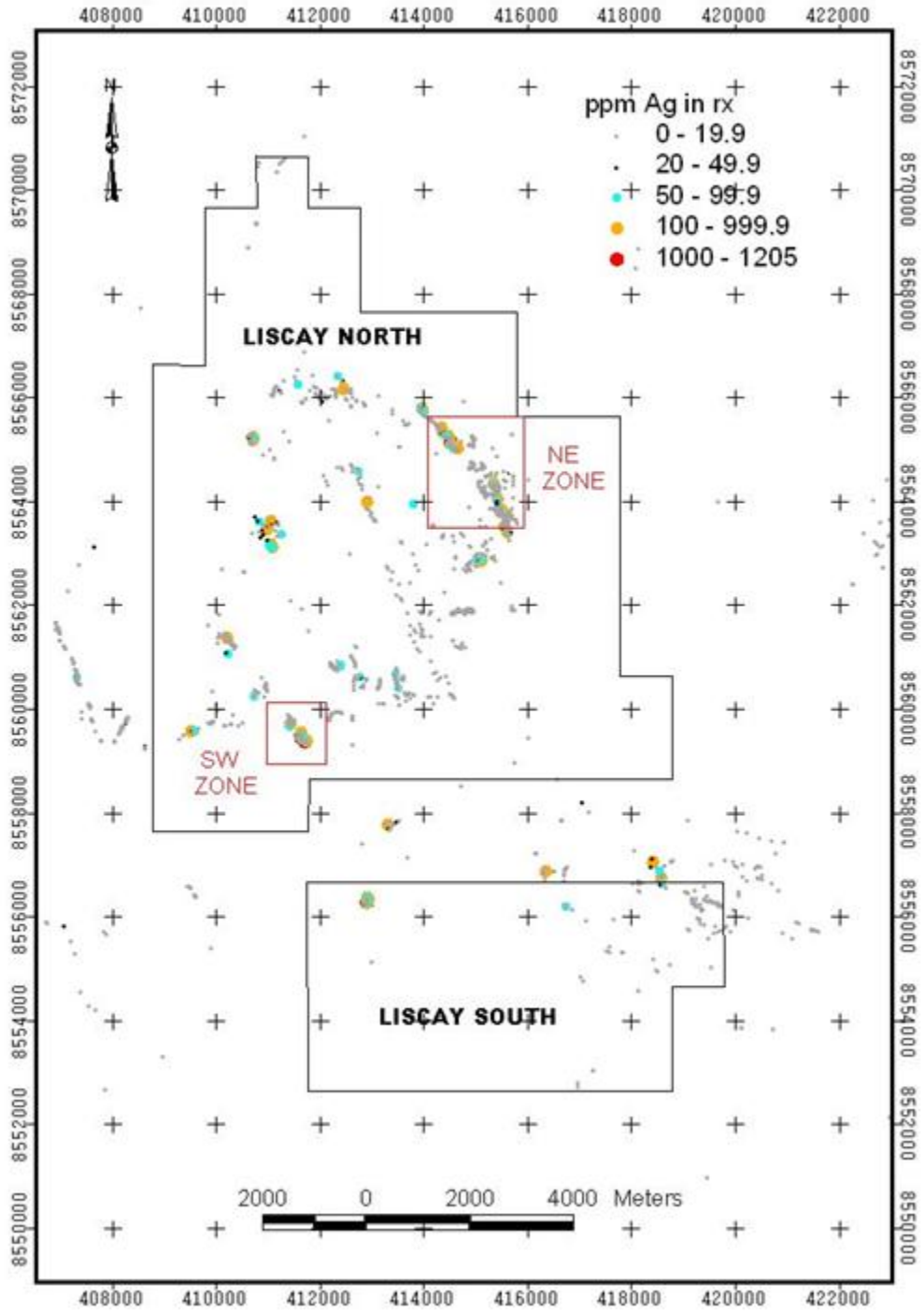


Figure 13: Pb in Rocks

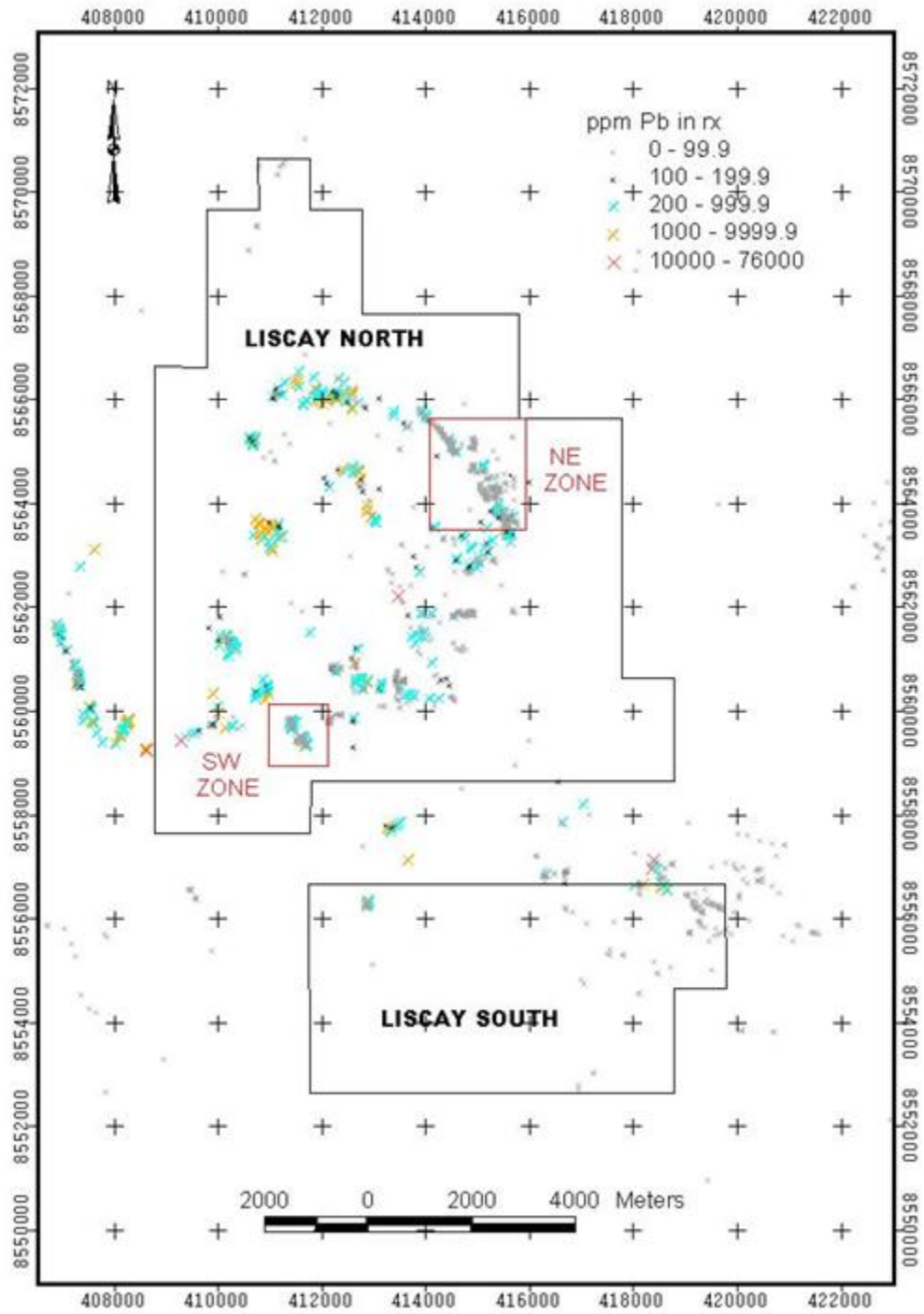
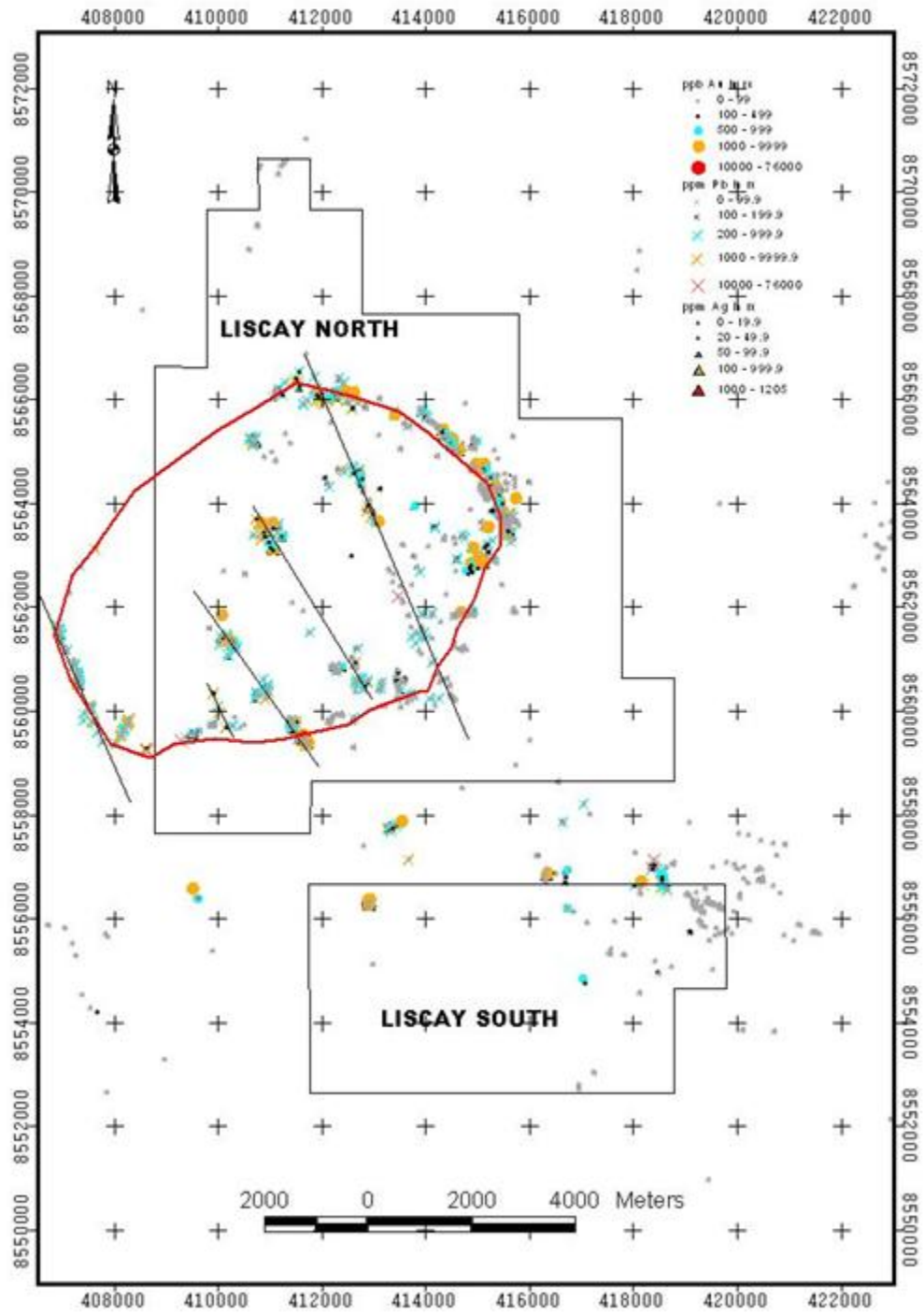


Figure 14: Compilation Showing Notional Caldera and Linear Elements



Based on the age and composition of the host rocks (mainly Tertiary volcanic-sedimentary rocks, which host most of the Au-Ag deposits in Peru), the alteration assemblage consisting of strong silicification and moderate sericitization, and elemental associations (precious-metal mineralization associated with anomalous concentrations of Bi, Cu, Hg, Mo, Pb, and Sb), management of the Company believes that the Liscay Project is an epithermal precious-metal prospect and many epithermal deposits are genetically and spatially related to porphyry-Cu systems.

Moreover, the alteration at the Liscay Project suggests that it is a low-sulphidation epithermal system, formed far away from an igneous source under neutral to slightly acidic conditions (as opposed to high-sulphidation systems that are more closely linked to igneous sources and are characterized by acidic assemblages including extensive argillic alteration, vuggy silica, and crystallization of alunite).

Some low-sulphidation systems have “Bonanza” (high-grade) segments that are strictly constrained in the vertical dimension due to physico-chemical conditions and structural preparation conducive to secondary boiling and the precipitation of ore minerals in multi-generational “crack-seal” veins characterized by laminated textures, cockscomb textures (implying open-space growth of quartz), and bladed quartz replacing calcite.

The hypothesis that there might be a vertical constraint on higher-grade mineralization at the Liscay Project has been tested by organizing rock-sampling information according to elevations for 129 samples collected that contained  $\geq 500$  ppb Au and for which elevations had been recorded. The results of this analysis are presented in Table 5 below.

**Table 5: Elevation Distribution, 129 SAMPLES  $\geq 500$  ppb Au**

Elev'n (m)	No. of samples	≈Median Au ppb	≈Median Ag ppm
3,400 – 3,500	1	600	5
3,500 – 3,600	3	700	15
3,600 – 3,700	8	1300	12
3,700 – 3,800	21	970	22
3,800 – 3,900	25	940	27
3,900 – 4,000	13	824	30
4,000 – 4,100	24	1140	77
4,100 – 4,200	2	1200	195
4,200 – 4,300	1	736	123
4,300 – 4,400	1	896	258
4,400 – 4,500	30	1020	75

Table 6 below gives the elevation distribution for 153 samples that contained  $\geq 30.0$  ppm Ag and for which elevations had been recorded. This analysis is not rigorous because it does not consider the possibility that post-mineral structures or faults might vertically shuffle mineralized zones. It also does not consider the random aspect of outcrop distribution, and the understandable human penchant for taking samples where terrain is not impossibly steep.

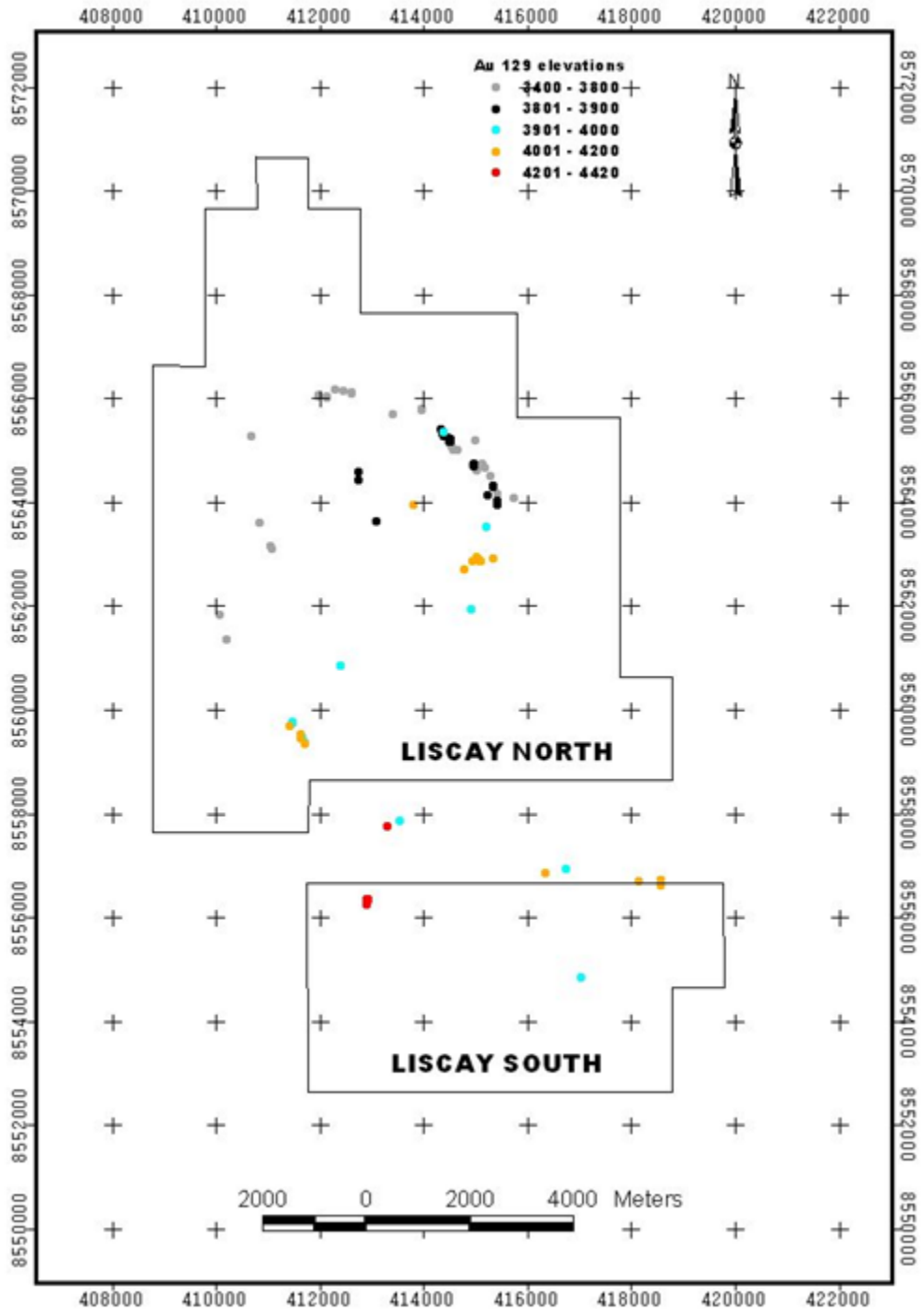
**Table 6: Elevation Distribution, 153 Samples  $\geq$  30 ppm Ag**

Elev'n (m)	No. of samples	$\approx$ Median Au ppb	$\approx$ Median Ag ppm
3,400 – 3,500	0	NA	NA
3,500 – 3,600	1	49	63.9
3,600 – 3,700	9	85	92.9
3,700 – 3,800	32	277	47.1
3,800 – 3,900	25	416	57.1
3,900 – 4,000	17	432	46.8
4,000 – 4,100	23	1000	85.8
4,100 – 4,200	8	446	81.9
4,200 – 4,300	1	736	123
4,300 – 4,400	2	573	173.3
4,400 – 4,500	35	897	79.3

In the population of Table 5 ( $\geq$ 500 ppb Au) , the weighted average Ag grade of 58 samples taken above an elevation of 4,000 m is 83.94 ppm, whereas the weighted average grade of 71 samples collected below an elevation of 4,000 m is 23.56 ppm. In the population of Table 6 ( $\geq$ 30 ppm Ag), the weighted average Ag grade of 69 samples taken above an elevation of 4,000 m is 85.12 ppm, whereas the weighted average grade of 84 samples collected below an elevation of 4,000 m is 55.1 ppm. Au assays are more consistent relative to elevation, but median values tend to be < 1.0 ppm below an elevation of 4,000 m, and >1.0 ppm above that same elevation in the population of Table 5 ( $\geq$ 500 ppb Au). In the population of Table 6 ( $\geq$ 30 ppm Ag), median Au values are >450 ppb above an elevation of 4,000 m and <450 ppb below that same elevation. Management believes that the two tables demonstrate a strongly ordered trend in the median value of Ag assays.

While it may be possible that there is a significant precious-metal mineralization below an elevation of 4,000 m, management, based on the low-sulphidation epithermal model and the available data from previous exploration, has determined to focus future exploration efforts in the higher reaches of the Liscay Concessions above an elevation of 4,000 m above sea level. Detailed stratigraphic mapping, additional sampling, geophysical surveying (IP and Resistivity) and additional drilling, all above an elevation of 4,000 m, are considered the best methods for advancing the project based on current information. Figure 15, depicting elevations for the 129 samples of the population of  $\geq$ 500 ppb Au, suggests that exploration efforts might best be concentrated on high ground in the southeast sector of the Liscay North Concessions and the northern margin of the Liscay South Concessions.

Figure 15: Elevations of 129 Anomalous (>500 ppb Au) Rock Samples



## **Mineralization**

As shown in Figures 16 and 17, there are numerous Au-Ag showings scattered across the Liscay Project. But only two, the Liscay NE zone and the Liscay SW zone (Figures 18 and 19) on the Liscay North Concessions, have been subject to semi-detailed evaluation (geophysics, soil sampling, and drilling).

The NE zone and SW zone are similar in many respects. In both areas, Au (and/or Ag) anomalies are associated with quartz veins and echelon clusters of quartz veins hosted by altered rocks striking northerly and dipping steeply west. In both areas, country rocks flanking the altered zones are mainly unaltered volcanic rocks. In both areas, the hosting rocks carry geochemically anomalous concentrations of Au (greater than 50 ppb), whereas economically significant concentrations of Au (greater than 500 ppb) are confined to distinct veins or zones of intense silicification. In both areas, there are a variety of vein textures (crustiform silica coating fractures, druzy quartz in vugs, cockscomb quartz filling crack-seal fractures, massive quartz veins, crudely laminated veins, stockwork chalcedonic or hyaline quartz veinlets, offset veins, breccia veins etc). Generally, the vein systems are coherent and can be traced for hundreds of m on surface.

On a property-wide scale, veins occur as prominent linear outcrops cutting volcanic units, most commonly the volcanics of the Tantara Formation. The width of veins ranges from cm scale to greater than 2 m. Swarms of sub-parallel cm-scale or larger veins are common throughout the Liscay Project and the widths of these vein swarms can be extensive, sometimes ranging variably to greater than 100 m. Individual veins pinch and swell along strike with irregular outcrop gaps. N to NNW trending structural zones hosting these series of veins can be traced for up to 14 km.

Wallrock alteration is commonly quartz-pyrite-sericite up to a m out from the vein, grading into a weaker alteration assemblage of quartz-chlorite-epidote-kaolinite.

Figure 16: Distribution of Au in Rocks and Location of NE and SW Zones

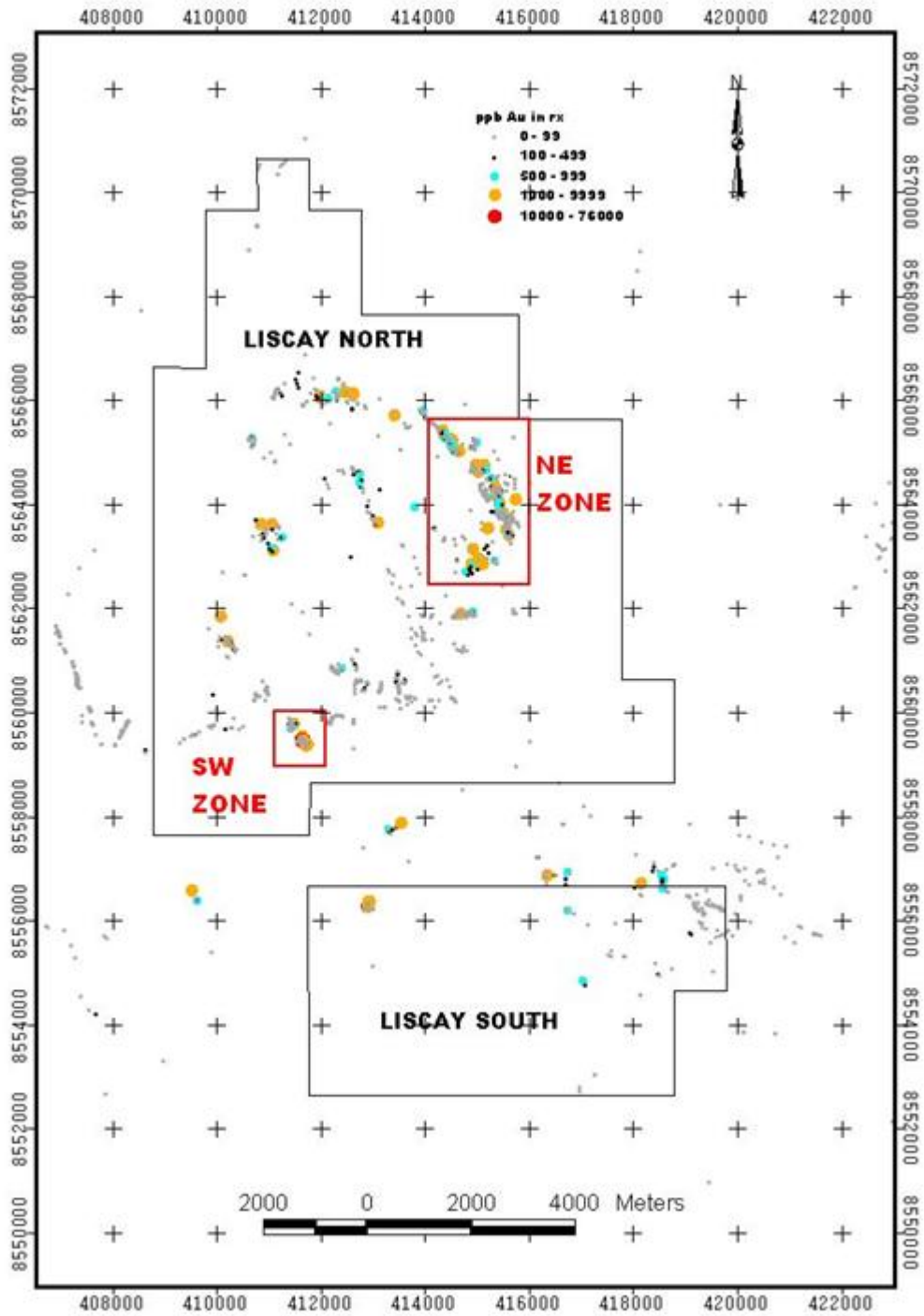




Figure 17: Geology and Mineralized Veins

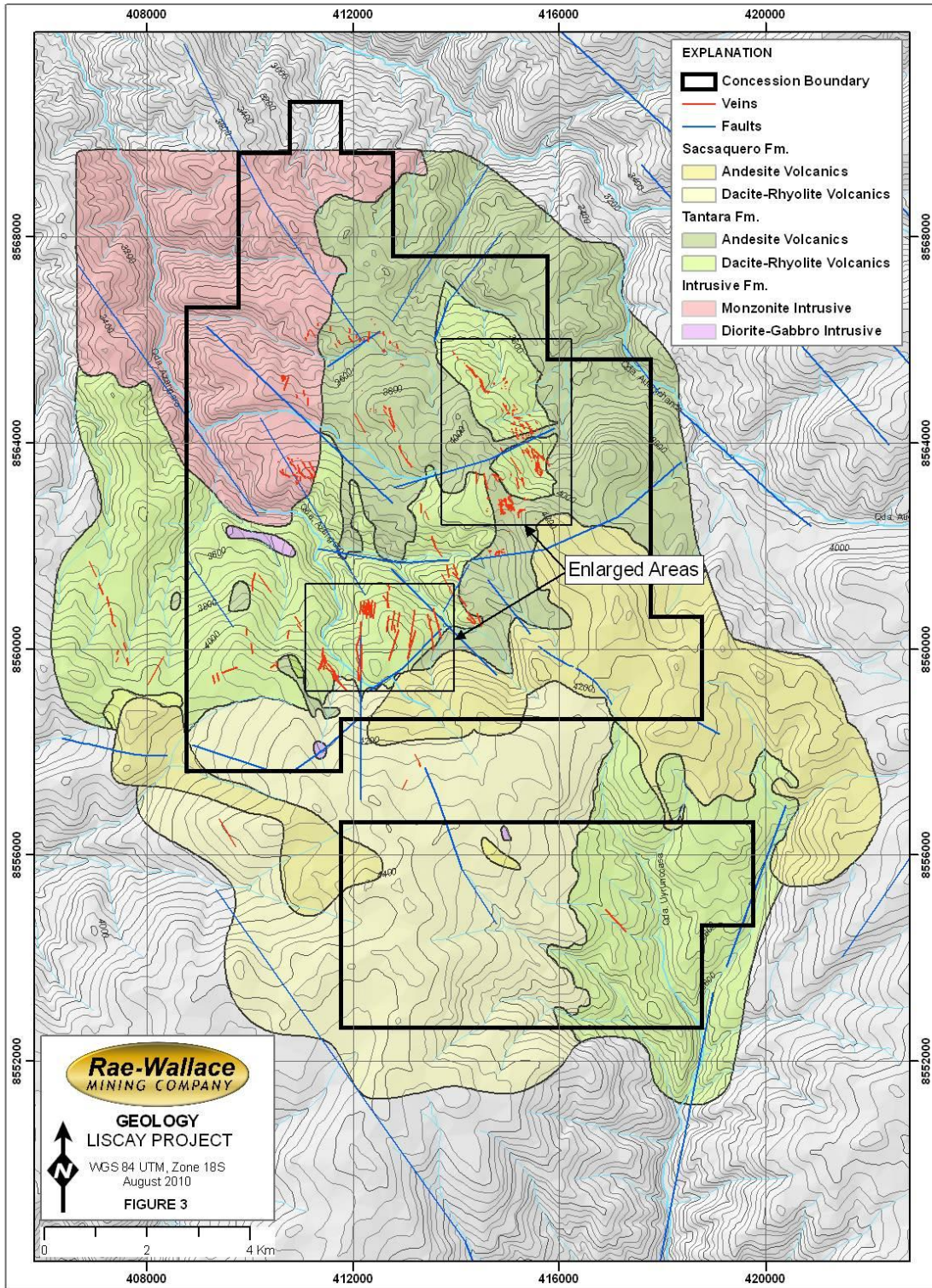
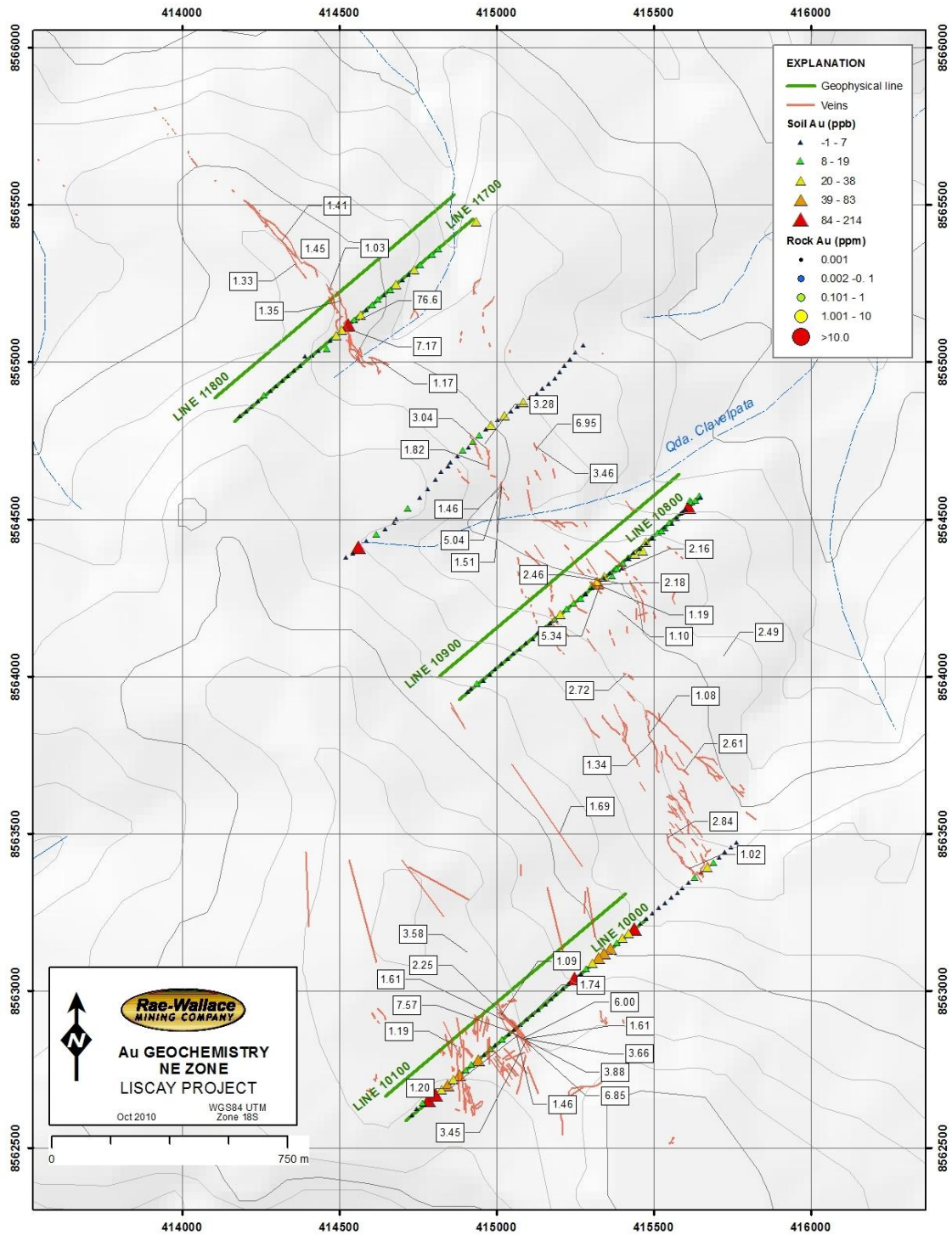
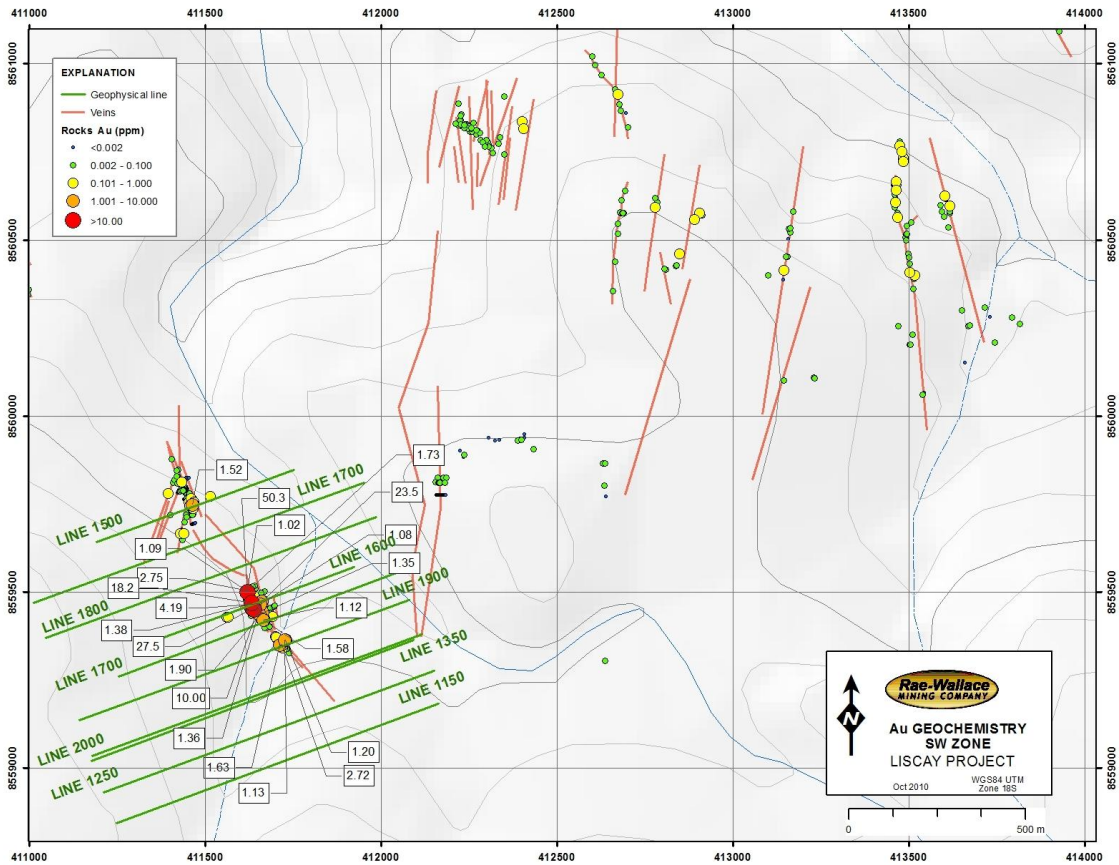


Figure 18: Compilation Detail, NE Zone



**Figure 19: Compilation Detail, SW Zone**



## Drilling

Twelve diamond drill holes totaling 1,499.7 m of HQ core (inside diameter 6.35 cm) were drilled by AK Drilling International S.A. between October 10 and November 29, 2008. Drill-hole parameters are given in Table 7 below.

**Table 7: DDH Parameters**

Zone	DDH number	Depth (m)	WGS84 E	WGS84 N	Elev'n (m)	Az(°)	DIP(°)
Liscay N, NE Zone	DDH-08LNE-1	105.70	414483	8565111	3814	90	-80
Liscay N, NE Zone	DDH-08LNE-1A	58.70	414499	8565111	3813	90	-60
Liscay N, NE Zone	DDH-08LNE-2A	220.00	415295	8564274	3804	50	-60
Liscay N, NE Zone	DDH-08LNE-3	210.00	414994	8562826	4100	50	-60
Liscay N, SW Zone	DDH-08LSW-1	111.30	411629	8559448	4004	70	-60
Liscay N, SW Zone	DDH-08LSW-2	203.20	411558	8559435	4026	70	-60
Liscay N, SW Zone	DDH-08LSW-3	58.40	411444	8559738	3975	70	-60
Liscay N, SW Zone	DDH-08LSW-3A	89.10	411444	8559738	3975	70	-80
Liscay N, SW Zone	DDH-08LSW-4	45.80	411688	8559352	3987	70	-60
Liscay N, SW Zone	DDH-08LSW-4A	109.8	411688	8559352	3987	70	-80
Liscay S, NW Zone	DDH-08LSW-9	126.85	412943	8556269	4425	270	-60
Liscay S, NW Zone	DDH-08LSW-9A	160.85	412939	8556269	4425	225	-60

Significant assay intervals are summarized in Table 8 below.

**Table 8: DDH Samples, Intervals, And Significant Assays**

<b>DDH</b>	<b>samples</b>	<b>m assayed</b>	<b>from (m)</b>	<b>to (m)</b>	<b>width (m)</b>	<b>true width</b>	<b>ppb Au</b>	<b>ppm Ag</b>
NE-1	12	12.85	22.90	25.90	3.00	0.78	229	4.70
			64.25	65.95	1.70	0.44	644	38.80
NE-1A	16	14.82	28.00	29.40	1.40	0.80	122	5.60
NE-2A	11	9.35	28.95	29.80	0.85	0.48	211	36.80
NE-3	44	30.78	116.00	117.00	1.00	0.57	676	44.20
			139.24	139.54	0.30	0.17	2330	192.00
			145.70	147.65	1.95	1.11	419	5.13
SW-1	80	111.80	18.95	21.6	2.65	1.51	169	12.00
			33.6	34.6	1	0.57	106	22.90
SW-2	31	35.44	142.65	150.27	7.62	4.34	208	5.20
			including			150.00	150.27	0.27
SW-3	28	29.10	28.70	30.20	1.50	0.86	253	19.35
SW-3A	28	30.40	54.25	62.43	8.18	2.13	173	16.60
SW-4	14	14.80	28.80	36.00	7.20	4.67	416	67.30
			including			29.80	30.80	1.00
SW-4A	19	19.90	57.20	61.20	4.00	1.04	210	56.90
			61.20	69.20	8.00	2.08	71	17.91
SW-9	6	6.37	no intercepts of interest					
SW-9A	8	7.52	no intercepts of interest					
<b>TOTAL</b>	<b>297</b>	<b>323.13</b>						

Drill-hole locations are shown in Figure 20 (in addition Figures 18 and 19 also indicate drill hole locations). Ten drill holes were spotted on the Liscay North Concessions (594.4 m on the NE zone and 617.6 m on the Liscay SW zone), and two others on the Liscay South Concessions, Liscay NW zone (287.7 m). No significant mineralization was intersected on the Liscay South Concessions.

A total of 297 core samples (including 10 duplicate samples) aggregating 323.1 m of core was assayed for Au, Ag, and ICP-suite elements. The average length of core-assay samples is approximately 1.1 m. The widest significant intercept is in DDH SW-4, which grades 416 ppb Au and 67.3 ppm Ag across 4.67 m (true width). The highest Au-Ag intercept is in DDH NE-3, which grades 2,330 ppb Au and 192 ppm Ag across 0.17 m (true width). The average true width of significant intercepts is 1.3 m.

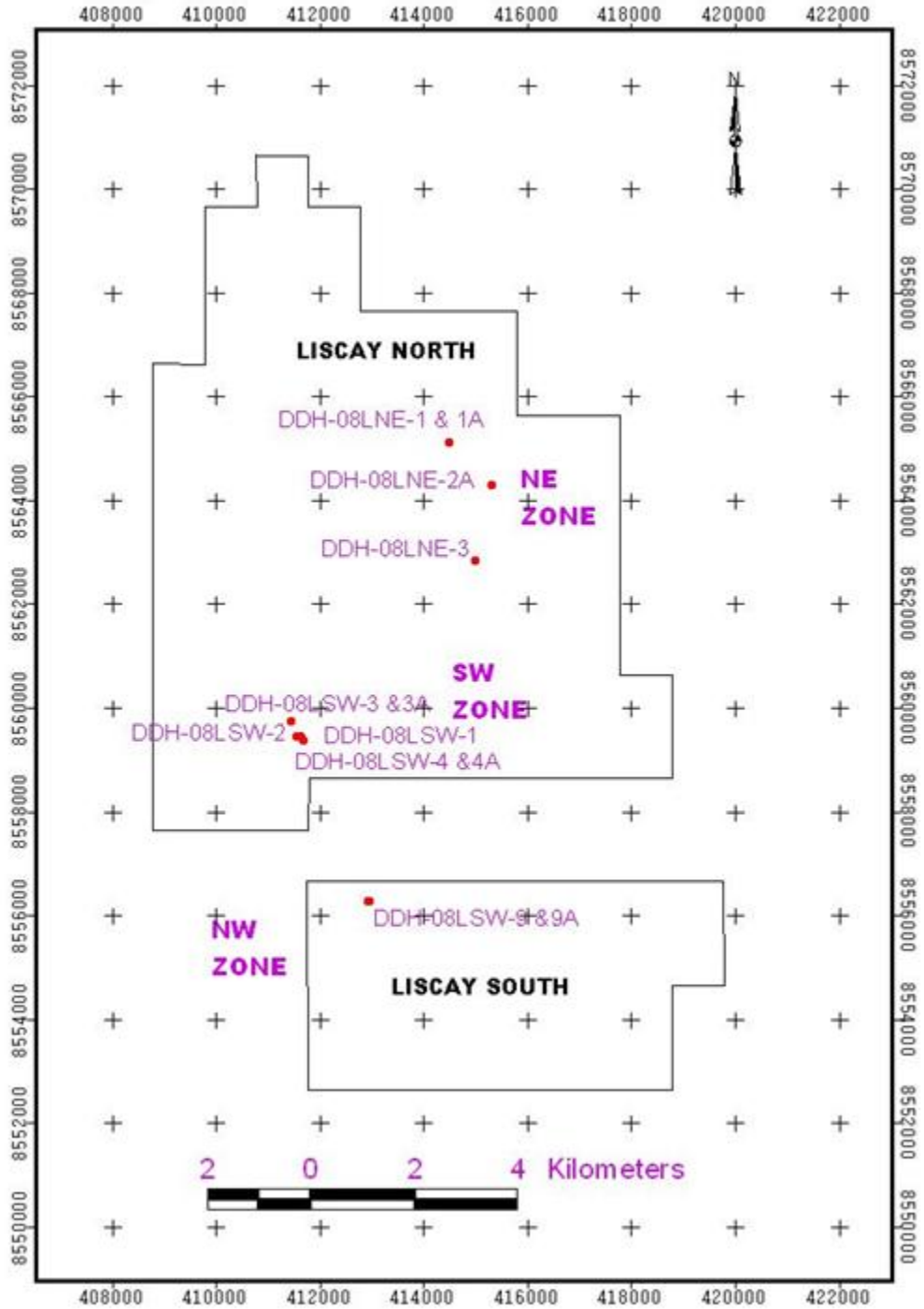
Because the drill holes dip either -60 degrees or -80 degrees in a direction opposite to the dip direction of mineralized structures, the acute angle formed by the intersection of the steep-dipping structures (-85 degrees) and the drill holes is either approximately 35 degrees or approximately 15 degrees respectively. In order to obtain an estimate of true width, the drill-hole intercept length must be multiplied by the geometrical sine of these angles (0.57 and 0.26 respectively). Table 8 includes a column giving the estimated true widths of significant drill-hole intercepts. Assays in Table 8 are calculated using the arithmetic weighted grade.

The drilling program can be considered an “orientation” survey inasmuch as the holes are widespread and there is not sufficient information to generate sections that are meaningful in a broad geological context. With the exception of the two holes drilled on the Liscay South Concessions, all significant intercepts correspond to the expected down-dip extension of silicified rocks mapped on surface, and higher grades correlate to zones of the most intense silicification. The two holes that did not have significant intercepts (those that were drilled on the Liscay South Concession) are the only two holes that are not at or near the perimeter of the circular feature described under the heading “Liscay Project – Exploration”.

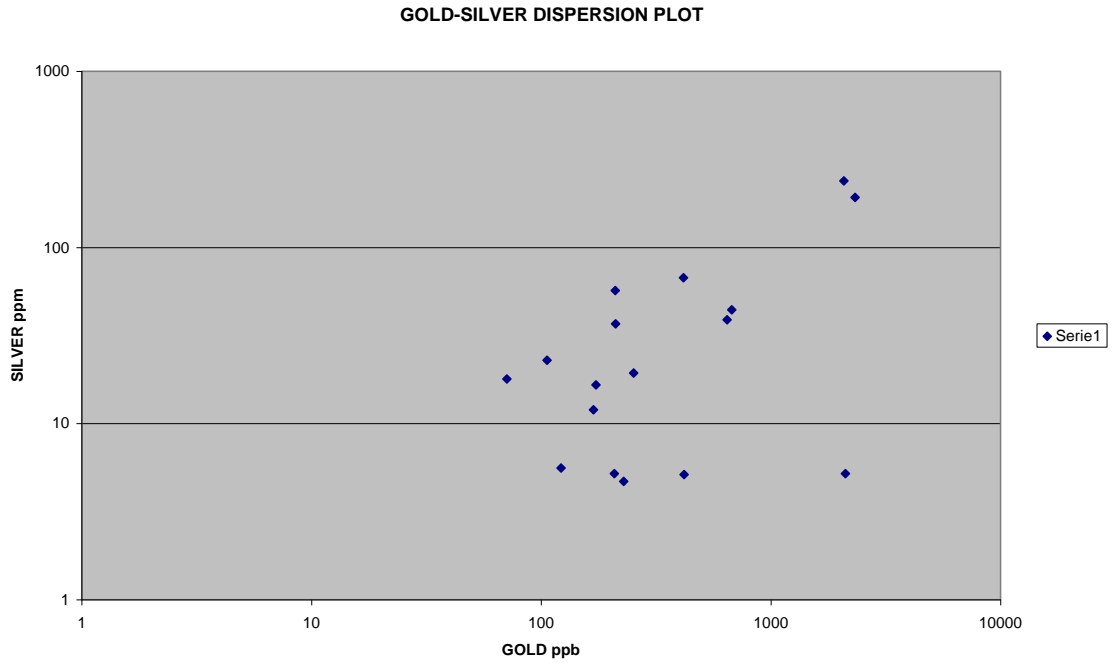
Based on the intercept information in Table 8 it appears that there are two populations of Au-Ag pairings (Graph 1). In the first population (12 of 17 intercepts), Ag assays are always greater than 10 ppm and increase with increasing grades of Au. In the second population (5 of 17 intercepts), Ag assays are always greater than 10 ppm and do not increase with increasing grades of Au. This suggests that there may be two generations of mineralization.

Management believes that the results of the reconnaissance drill program are encouraging. There are significant Au-Ag intercepts in ten of the twelve holes drilled and the drill program probed only a very narrow vertical slice of the mineralized system, mainly between 3,900 and 4,000 m above sea level. Management believes that there is a good possibility of encountering Bonanza segments at other levels of the system or as favorable structures allow.

Figure 20: Location of Diamond Drill Holes



**Graph 1: Au-Ag Dispersion Plot**





## Sampling and Analysis

The sampling method and approach used by Geologix and Newmont for the rock-sampling and soil-sampling programs is unknown but, given that both are reputable companies, it is assumed that industry best-practices standards were used. In the field, numerous scars on outcrops attesting to physical sampling, numerous fragments of flagging tape and illegible remnants of painted numbers marking sample locations are apparent. In other words, field evidence substantiates the completion of a systematic sampling program, as does the office evidence (laboratory certificates, spreadsheets, etc).

For the drill program, evidence of the sampling method and approach is obvious based on inspection of the drill core, which was completed on a random basis. The core is stored in strong, hinged wooden boxes that is carefully labeled and housed in a dry, secure building. Inside the core boxes, drill intervals and sample intervals are also carefully labeled. The drill core for sampled intervals was halved by a diamond saw, and it is obvious that the approach was to sample and assay any drill interval showing signs of alteration (silicification). From inspection of the randomly chosen core boxes, it is evident that recuperation was excellent (close to 100%).

Table 9 lists sample details for nine rocks from the SW zone, the NE zone and the core-storage facility. The table includes Au-Ag assays as determined by the Inspectorate, which is an ISO-certified laboratory in Lima (ISO 9001:2008 No. 39041). Au was analyzed by fire assay with an atomic absorption finish. Ag and thirty-one other elements were analyzed by ICP (inductively coupled plasma mass spectrometry). One over-limit (greater than 300 ppm) ICP Ag assay was verified by fire assay.

**Table 9: Description and Analytical Results, QP Samples**

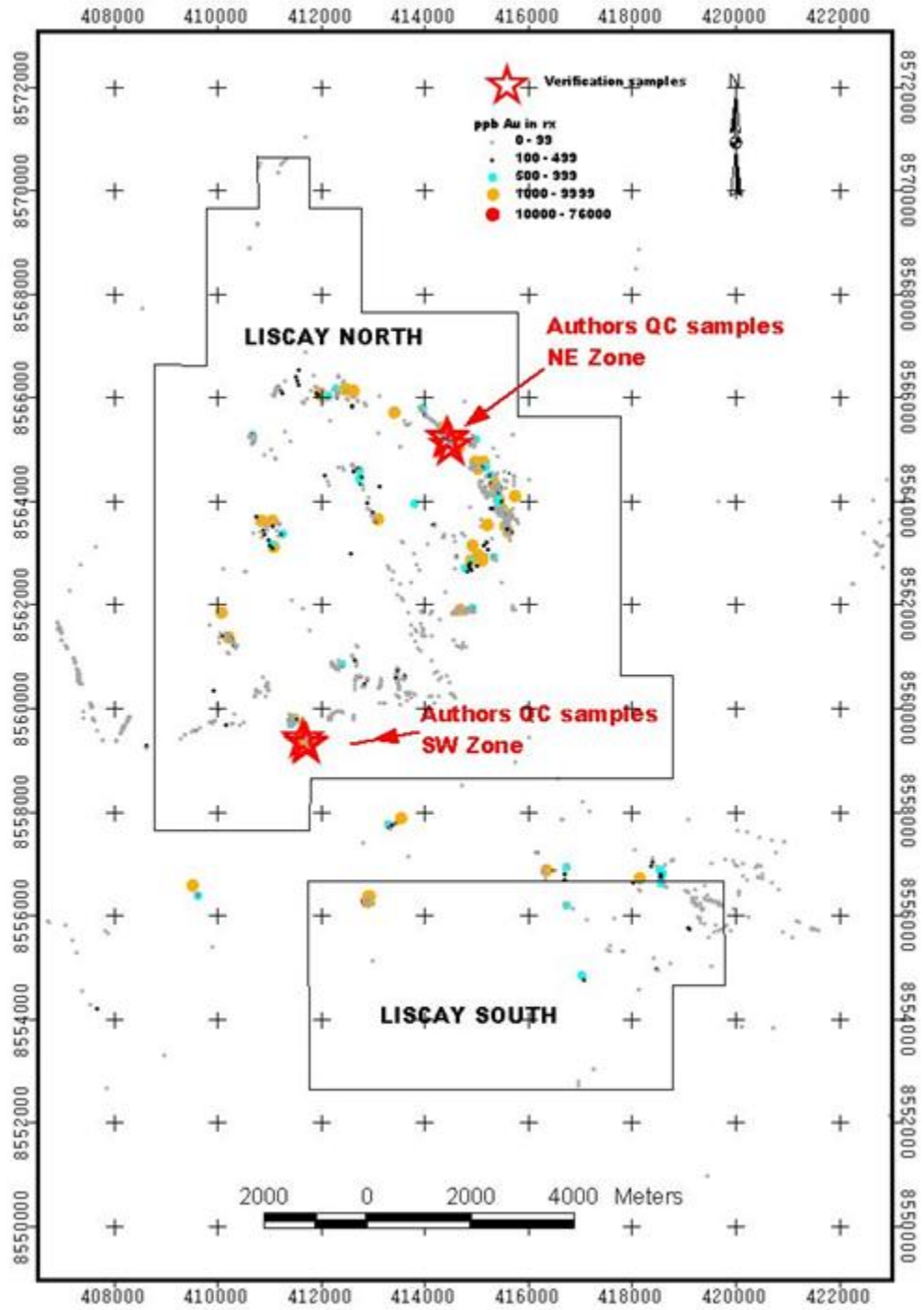
No.	WGS84 E	WGS84N	Length m	Dir'n	Type	Az/Dip	Description and alteration	Au ppb	Ag ppm
CB 901	411660	8559425	1.2	295	CHIP	015 ±90	silicified quartz-eye dacite dike, strong silica inundation, weak limonite on fractures and disseminated spots, hyaline quartz microveinlets, trace chalcedonic microveinlets, spotty sugary white quartz, spotty drusy silica in vugs, weak sericitization of feldspar phenocrysts, splay structure, SW zone	135	6.9
CB 902	411702	8559370	1.4	65	CHIP	148 ±90	similar to CB 901, near platform DDH-4, SW zone	160	25.7
CB 903	411737	8559329	2.0	230	CHIP	155 ±90	similar to CB 901, but with massive segments of milky white quartz vein to 0.3m, SW zone	65	9.5

No.	WGS84 E	WGS84N	Length m	Dir'n	Type	Az/Dip	Description and alteration	Au ppb	Ag ppm
CB 904	414502	8565088	3.0	280	CHIP	180 85	silicified quartz-eye dacite dike, strong silica inundation, weak limonite on fractures and as disseminated spots, hyaline quartz microveinlets, trace chalcedonic microveinlets, common white quartz veins to 6 cm with cockscomb texture, spotty sugary white quartz, spotty drusy silica in vugs, weak sericitization of feldspar phenocrysts, near a drill platform, SW zone	111	1.8
CB 905	414519	8565110	3.0	90	CHIP	175 85	similar to CB 904, but with more veins, traces of raggedy grey metallic mineral. Traces of cubic boxworks., NE zone	147	7.1
CB 906	414520	8565110	1.4	90	CHIP	175 85	90% quartz veining, massive to thickly laminated, NE zone	557	87.8
CB 907	414469	8565226	1.0	70	CHIP	160 85	massive white quartz vein, some fractures with limonite and crustiform quartz., NE zone	334	15.1
CB 908	414430	8565267	0.6	70	CHIP	160 85	massive white quartz vein, common drusy silica in vugs, common crustiform quartz in fractures, modest limonite in fractures, NE zone	2474	448.0
CB 909					CORE		DDH-08LSW-2, 147.05 to 150.45m, tickets M385104 to M385107	141	4.1

The results of the outcrop check-sampling program are consistent with the results reported by Geologix from its outcrop-sampling program. All of the check samples carry “geochemically anomalous” (greater than 50 ppb) concentrations of Au, and two of the samples carry “economically interesting” (greater than 500 ppb) concentrations of Au. The two highest Ag assays (87.8 and 448.0 ppm, equivalent to about 2.0 to 13.0 opt) predictably correspond to the two highest Au assays (557 and 2474 ppb respectively). Sampling that was conducted suggests that although silica-inundated quartz-eye dacite contains anomalous concentrations of Au (65 to 160 ppb), “economically interesting” concentrations of Au are confined to quartz veins.

The arbitrarily selected core sample was taken from DDH-08LSW-2 (147.05m to 150.0 m, corresponding to Geologix sample numbers M385104 (0.85 m), M385105 (0.75m), and M385106 (1.35 m). The arithmetical weighted grade of this core interval (Geologix data) is 142.6 ppb Au and 3.01 ppm Ag across 2.95 m. The grade of the sample (CB-909) collected and assayed by Inspectorate is 141.0 ppb Au and 4.10 ppm Ag, which is within about 1% (Au) and 26% (Ag) of the Geologix assays. This reproducibility is more than acceptable, particularly considering the low Au-Ag grade of the check sample.

Figure 21: QC Samples, Liscay NE Zone and Liscay SW Zone





**Table 10: Drill Core Duplicate Samples and Assays**

sample	Au ppb	Ag ppm	duplicate	Au ppb	Ag ppm
M385070	-5	0.13	<i>M385071</i>	-5	0.18
M385095	19	2.85	<i>M385096</i>	16	2.04
M385123	105	13.45	<i>M385124</i>	75	11.15
M385149	63	8.60	<i>M385150</i>	59	11.30
M385168	43	0.72	<i>M385169</i>	15	0.40
M385199	7	0.46	<i>M385200</i>	7	0.43
M385221	-5	1.18	<i>M385222</i>	-5	1.11
M385272	12	0.19	<i>M385273</i>	13	0.18
M385279	54	1.19	<i>M385280</i>	50	1.18
M385427	91	12.80	<i>M385428</i>	66	6.93

### Exploration and Development

Based on the results of the Liscay Technical Report, the Company plans to continue to explore the Liscay Project for the reasons outlined below.

1. Reconnaissance-level exploration on the extensive Liscay Project has demonstrated that there is a wide-spread distribution of quartz veins and silicified zones carrying geochemically anomalous to economically interesting precious-metal values.
2. Alteration (silicification-sericitization), anomalous elemental associations (Pb, Hg, Sb, Bi, Cu, Mo), and the geological context (Tertiary-age volcanic host rocks) suggest that the identified mineralization is of the low-sulphidation epithermal type. These types of deposits typically have Bonanza zones that are constrained to structures within well-defined vertical limits.
3. A roughly circular pattern emerges from plots of anomalous Au (to 76.6 ppm), Ag (to 0.12%) and Pb (to 8.7%) values from the >2,400 rocks collected on the property during reconnaissance sampling. The author suggests that this circular feature might be the expression of a caldera. Caldera margins are known to host significant epithermal deposits in Peru and elsewhere in the world.
4. Orientation-scale soil sampling surveys and geophysical surveys (IP-Resistivity) have shown that both exploration methods are effective in identifying mineralized targets. Moderately anomalous (greater than 20 ppb) Au-in-soil assays confirm the detection of known mineralized zones for distances of up to two hundred m down-slope from source, whereas soils collected close to source typically yield assays of greater than 50 ppb Au. Geophysical resistivity anomalies directly correspond to zones of silicification associated with mineralization. Although there is not a distinct chargeability anomaly associated with mineralization, the penetration depth of the geophysical orientation survey was shallow, and there could be a better response with deeper penetration techniques.

5. All ten reconnaissance-scale drill holes on the Liscay North Concessions intersected precious-metal anomalies corresponding to the down-dip extension (to a maximum depth of approximately 60m below surface) of known mineralized zones on surface. The widest intercept (4.7 m, true width) assayed 416 ppb Au and 67.3 ppm Ag. Narrower intercepts of up to 2,330 ppb Au and 192 ppm Ag were also obtained. All intercepts are situated at, or close to, the perimeter of the notional caldera structure. Two holes drilled on the Liscay South Concessions, which is not spatially associated with the notional caldera structure, did not intersect significant mineralization.
6. The property-wide prospecting/mapping program and the orientation-scale soil-sampling, geophysical, and drilling surveys have firmly established the property's potential for hosting significant precious-metal mineralization. However, it must be recognized that the work that has been done, although perfectly appropriate for a grass-roots project, is not sufficient to identify specific targets for immediate drilling. The drilling that has been done is widespread, has only penetrated mineralized zones to a depth of about 60 m below surface, and is mainly confined to a vertical slice between elevations of 3,900 to 4,000m above sea level. The geological model for low-sulphidation epithermal mineralization demands an evaluation of various vertical slices. Geophysics and soil sampling surveys that were completed are confined to a small arc segment of a potential structure (the notional caldera) that has a circumference of about 22km. The geological mapping that has been done is rudimentary. There is no firm grasp of volcanic stratigraphy and structure to anchor future exploration decisions. For these reasons, a two-stage approach to future exploration is recommended and outlined in the next section.

Based on the Liscay Technical Report, the Company plans to complete an exploration program consisting of: geological and structural mapping; geophysical and soil surveying; and target definition. The phase 1 exploration budget is estimated to require 12 months to complete and is as follows:

#### A: Geological and Structural Mapping

The mapping completed by Geologix was rudimentary, although entirely appropriate for a project at a grass-roots level of exploration. Now, it is necessary to obtain a more rigorous appreciation of stratigraphic and structural controls to anchor expensive exploration decisions expected in the future. This will require the services of an experienced exploration geologist with a strong background in volcanology. Time allotted is 30 days in the field, 15 days in the office, and five days traveling. Budget allotted is US\$500 per day. Total cost is US\$25,000.

#### B: Geophysical Surveying

Additional deep-penetrating IP-Resistivity surveying is recommended to identify silicified or sulphidized root zones corresponding to potential high-sulphidation epithermal mineralization, or to broadening/intensifying of low-sulphidation vein systems. Most of the geophysical lines should be located at elevations of greater than 4,000 m, and should cross the perimeter of the notional caldera structure discussed above. A minimum of 100 line km is suggested. The geophysical parameters should be determined by the Company in collaboration with an experienced geophysicist. Estimated cost at US\$800 per line km is US\$80,000.

#### C: Soil Surveying

Overall, outcrop exposure on the Liscay Project ranges from about 2% to 10%, but there are extensive grassland tracts where there are no outcrops at all, and where soil sampling could identify new targets and amplify existing ones. In the orientation survey completed over part of the NE zone, 190 soil samples were taken at 25m intervals along four lines separated by 500 to 1,000m. The orientation soil survey successfully identified known mineralized structures (highly anomalous soil assays of greater than 50 ppb Au obtained), and identified the down-slope trail of mineralized structures for distances of 200 to 300m away from the source (moderately anomalous results of 20 to less than or equal to 50 ppb Au obtained). The orientation soil survey also identified Au anomalies up-slope of known showings that have not been traced to source. Based on the distribution pattern of soil anomalies in the orientation survey, a soil-sampling interval of 100 m is sufficient to identify the presence of unexposed mineralized zones in inclined terrain, although this should be reduced to an interval of 50 m in flat terrain.

It is recommended that additional soil sampling be done along the geophysical lines and elsewhere on the Liscay Project, particularly at high altitudes and where outcrop is sparse. It is calculated that 1,500 soil samples would have to be collected to accomplish the objectives. The budget allot at US\$25 per sample for shipping, handling, drying, Au assays and multi-element ICP analysis is US\$40,000.

D: Target Definition

This is a contingency for such activities as detailed mapping, detailed sampling, trenching, and labour that may be required to define specific targets for drilling. Budget allot is US\$20,000.

A cost estimate for phase 1 is given in Table 11 below.

**Table 11: Cost Estimate, Phase 1**

ITEM	COST (US\$)
geological mapping (consulting specialist)	25,000.00
geophysical surveying	80,000.00
soil surveying (lab)	40,000.00
salaries and benefits	70,000.00
camp, fuel, food, hotels, informal labour, etc	30,000.00
office, drafting, phone, etc	10,000.00
target definition	20,000.00
contingencies 10%	25,000.00
<b>TOTAL</b>	<b>290,000.00</b>

Phase 2 of the exploration program will consist of diamond drilling. The logistics, scope and scale of phase 2 of the program are completely dependent on the results of phase 1 exploration. However, based on the current level of knowledge and on the anticipation of intriguing results from phase-1 exploration, the Company intends to prepare for a 5,000m drill program that will cost US\$150/m (all inclusive) and is estimated to require an additional 12 months to complete. Budget allot is US\$750,000.



## TORO BLANCO PROPERTY

Information in this section is summarized or extracted from the Toro Blanco Technical Report prepared by John A. Brophy, P.Ge, an independent person of the Company and a “Qualified Person”, as defined in NI 43-101. The Toro Blanco Technical Report was prepared in accordance with the requirements of NI 43-101.

Portions of the following information are based on assumptions, qualifications and procedures which are set out only in the full Toro Blanco Technical Report. For a complete description of the assumptions, qualifications and procedures associated with the following information, reference should be made to the full text of the Toro Blanco Technical Report which is available for review on SEDAR located at [www.sedar.com](http://www.sedar.com). Alternatively, the Toro Blanco Technical Report may be inspected during normal business hours at the offices of the Company at 610 S. Rock Blvd., Sparks, Nevada, and at the offices of the Company’s legal counsel, Irwin Lowy LLP, at Suite 1010 – 130 Adelaide Street West, Toronto, Ontario, during the period of distribution of securities offered by this Prospectus and for 30 days thereafter.

### Property Description and Location

The Toro Blanco Project comprises the 900-ha Toro Blanco Concession located on the Huachocolpa (27n) map sheet in the Pilpichaca District (Huaytara Province, Huancavelica Department) of southwestern Peru (Figures 22 and 23). The Toro Blanco Project is neither patented nor surveyed, as there is no legal requirement for this in Peru.

Figure 22 is a claim map of the Toro Blanco Project prepared by MEM on November 2, 2010. Another map, Figure 23, shows the claim, topography, roads and exterior coordinates.

Registration data for the claim are shown in Table 12, and claim coordinates are shown in Table 13. Full title to the Toro Blanco Concession has recently been transferred to the Company and the claim is currently in good standing. Prior to June 30, 2011, claim fees of US\$3.00 per ha were paid to maintain the Toro Blanco Concession in good standing for an additional year. This is the only obligation imposed by Peruvian mining law to maintain concessions in good standing for the first seven years after the date of original staking. Thereafter, certain annually-escalating penalties are applied if certain expenditures for exploration or exploitation are not committed (and reported) on the Toro Blanco Project. Such penalties will not be applied to the Toro Blanco Concession before June of 2011, and may not be applied at all if adequate exploration work is documented.

**Table 12: Registration Data, Tambo Nuevo 15**

CODE	STATUS	CLAIM	TITLE HOLDER	ha
010280304	Titled D.L. 708	Tambo Nuevo 15	Rae Wallace Peru S.A.C.	900

**Table 13: Vertices, Tambo Nuevo 15**

VERTEX NW PSA 56	VERTEX NE PSA 56	VERTEX SE PSA 56	VERTEX SW PSA 56
512000E-8533000N	515000E-8533000N	515000E-8530000N	512000E-8530000N
VERTEX NW WGS 84	VERTEX NE WGS 84	VERTEX SE WGS 84	VERTEX SW WGS 84
511776E-8532634N	514776E-8532634N	514776E-8529634N	511776E-8529634N

There are no specific licenses or permits required for routine exploration of mineral properties in Peru, although there are common-sense guidelines regarding community relationships. However, once a project has advanced to the drill stage or beyond, an EIS must be completed. This involves a study of water quality, flora and fauna, archeological features, environmental issues, social benefits, surface rights, community consultations, and a reclamation plan. Management is not aware of any environmental liabilities affecting the Toro Blanco Property.

Figure 22: Official Government Claim Map (November 2, 2010) showing the Toro Blanco Property and Owners of Adjacent and Subjacent Claims

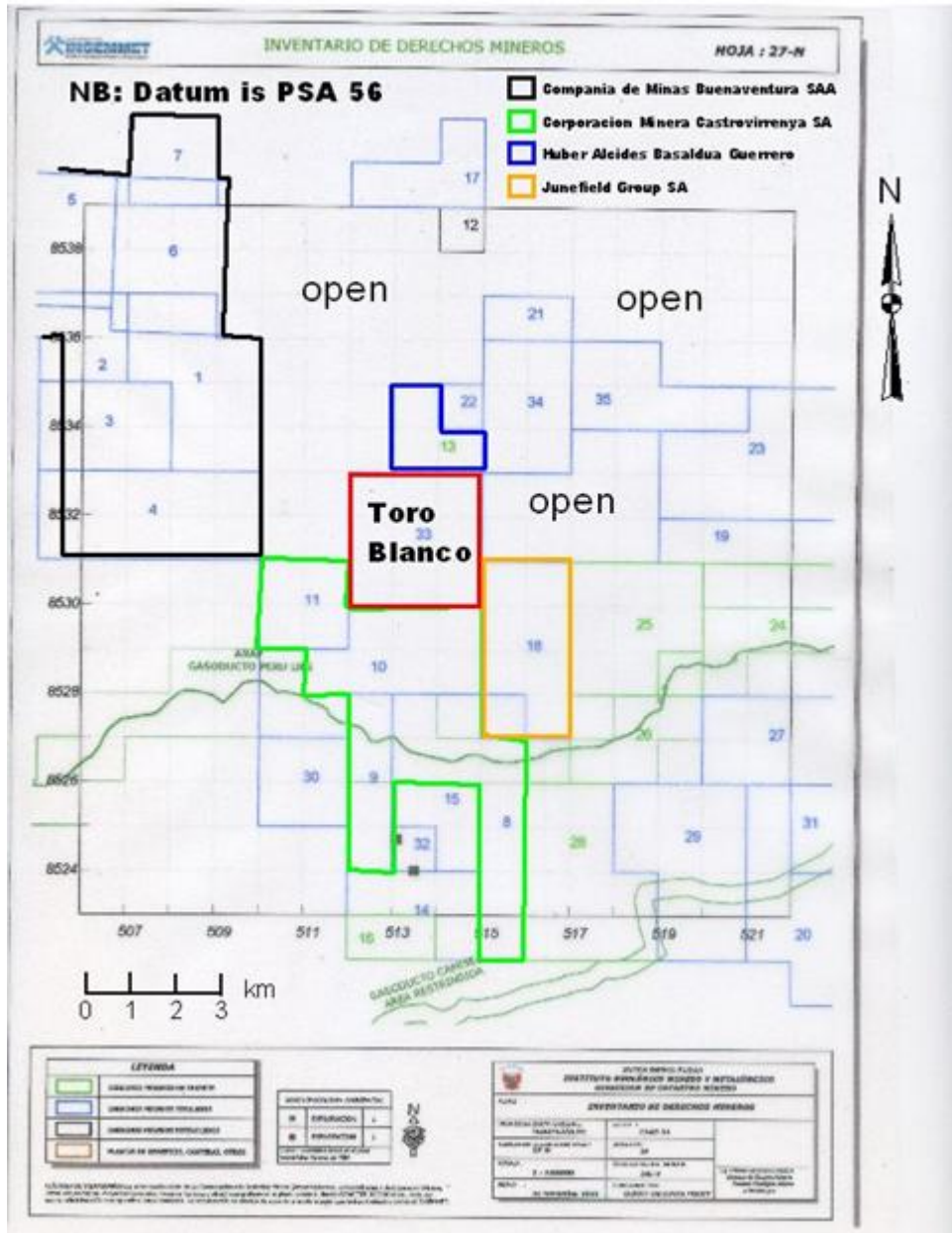
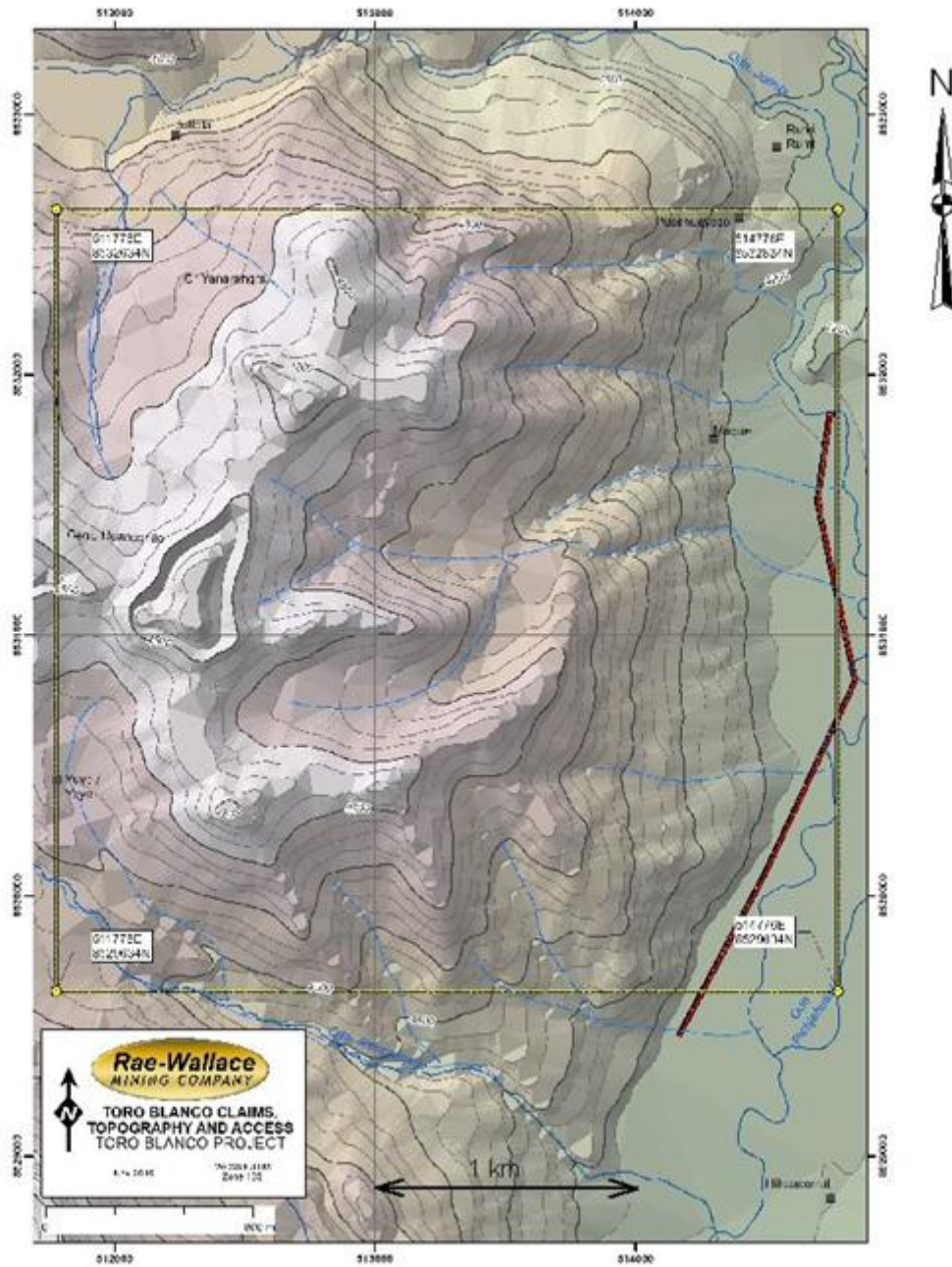


Figure 23: Toro Blanco Property Showing Topography, Gravel Road, and WGS84 Coordinates of Vertices



### **Accessibility, Climate, Local Resources, Infrastructure and Physiography**

The topography of the Toro Blanco Project is illustrated in Figure 23. The westernmost third of the Toro Blanco Concession encompasses a northerly trending, crescent-shaped, east-concave chain of peaks with altitudes ranging between 4,700 to 4,900m above sea level. From these heights, the terrain drops at a moderately steep inclination towards the east, culminating in the valley of Rio Tambomachay at an elevation of 4,100m above sea level. The average slope of the incline is about 18 degrees. It is basically a walk-up or walk-down scenario and there are few topographic swells to break the monotony of the slope. Besides grasses and shrubs at lower elevations that can be used for grazing, the Toro Blanco Property is otherwise barren of vegetation (see Plate 2).

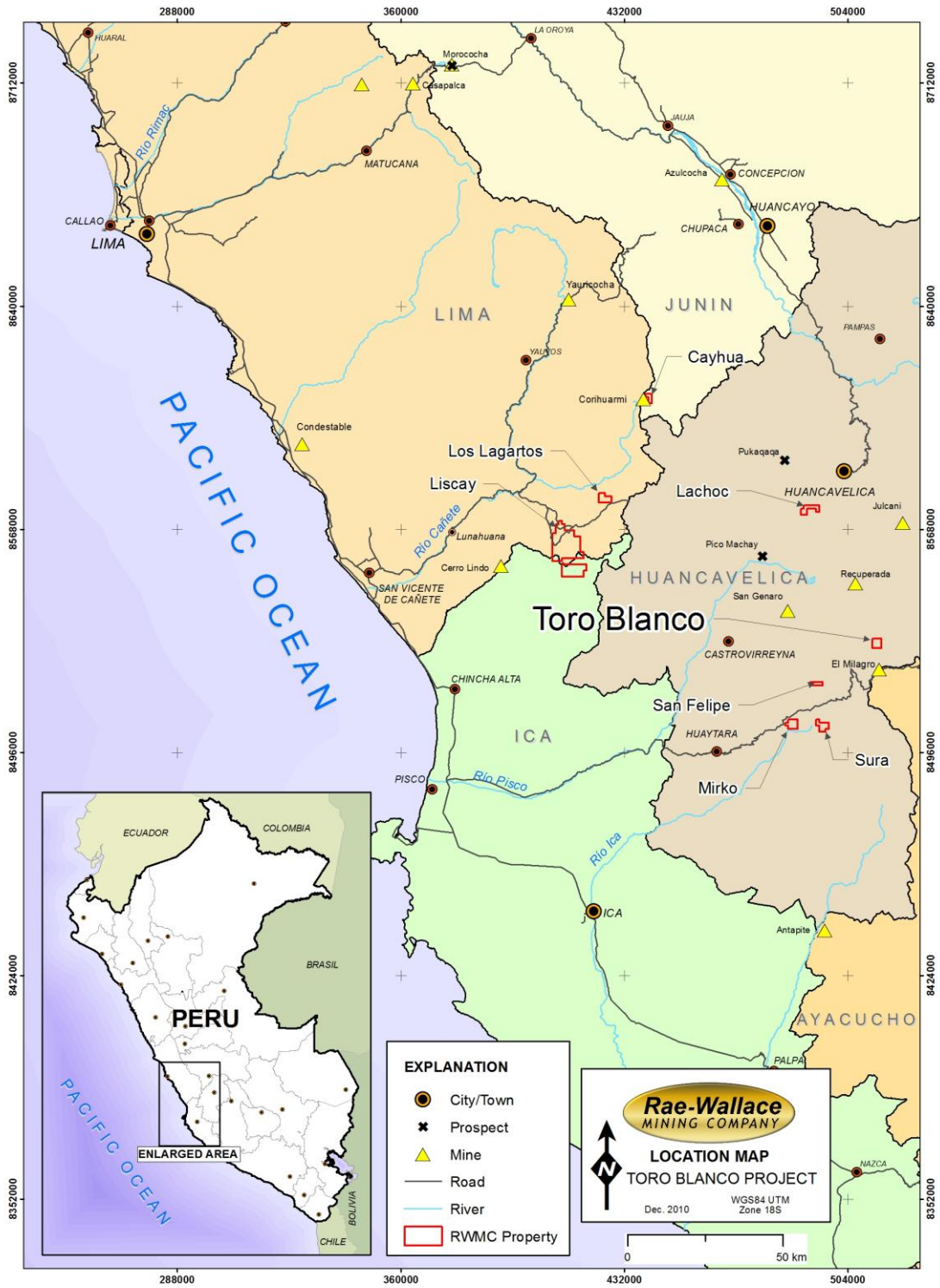
The Toro Blanco Project is approximately 280 km southeast of Lima and is a 7.3 hour, 454.5km drive along paved and gravel roads. Because of the proximity to Lima there is ample availability of supplies and personnel to support exploration and development work.

The “Los Libertadores” highway is about 10 km to the south of the Toro Blanco Project. There is electrical service along this route. The Toro Blanco Project itself is sterile with regards to land use, although there are a few adobe huts (shepherding stations) on the valley floor of Rio Tambomachay in the western extremity of the Toro Blanco Property. Apart from this, there are no inhabitants, no grazing grounds, no known archeological artifacts, and no agricultural plots. The land is barren, vertiginous, steeply inclined and unsuitable for any other economically viable activity besides mining.

**Plate 2: Panoramic Westerly Facing View of the Toro Blanco Property**



Figure 24: Regional Location Map



In the general area of Peru where the Toro Blanco Project is located, there is a rainy season lasting from December through March during which early mornings are generally clear, but late mornings and afternoons are often greeted by torrential rainfalls punctuated by hailstorms and fog that can last well into the evening. The remainder of the year is the “dry season” during which only intermittent rains are encountered. Because of the relatively good access to Toro Blanco, it is possible to work during the rainy season, although not as productively as during the dry season. Temperatures seldom fall below 5 degrees Celsius and seldom rise above 21 degrees Celsius. The average annual temperature is about 13 degrees Celsius.

### **History**

Apart from the exploration work done on the Toro Blanco Project by Geologix and the Company between the years 2005 and 2010, there is no previous history of exploration on the claim.

### **Geological Setting**

The basement rocks in the Huachocolpa quadrangle comprise moderately to intensely folded older sedimentary rocks. These are overlain by volcanic debris and flows of late Cenozoic age cut by numerous intrusive rocks. Radiometric dating of the volcanic rocks gives ages that fluctuate between 8.2 and 10.4 Ma.

The Huachocolpa region is part of what is considered to be one of the most important mineral districts in southwestern Peru. Most of these are Ag-Pb-Zn prospects related to quartz veins, and most of the prospects are within volcanic rocks of the mid-Cenozoic-age Apacheta Formation (Nm-ap2 in Figure 25 and Table 14). These volcanic rocks were generated by a NNW-trending chain of volcanoes possibly controlled by a regional structure known as the Chonta Fault. Within the Apacheta Formation, at least 12 centers have been identified where hydrothermal fluids have altered the volcanic and intrusive rocks, one of which corresponds to the Toro Blanco Project. The Apacheta Formation is at least 600m thick on the Toro Blanco Project.

Figure 25: Regional geographical setting of the Toro Blanco property (red square) showing the locations of the Recuperada and Caudalosa Plants (southern and northern red circles respectively). The crossed pick-and-hammer symbols indicate the locations of the many mines in the area.

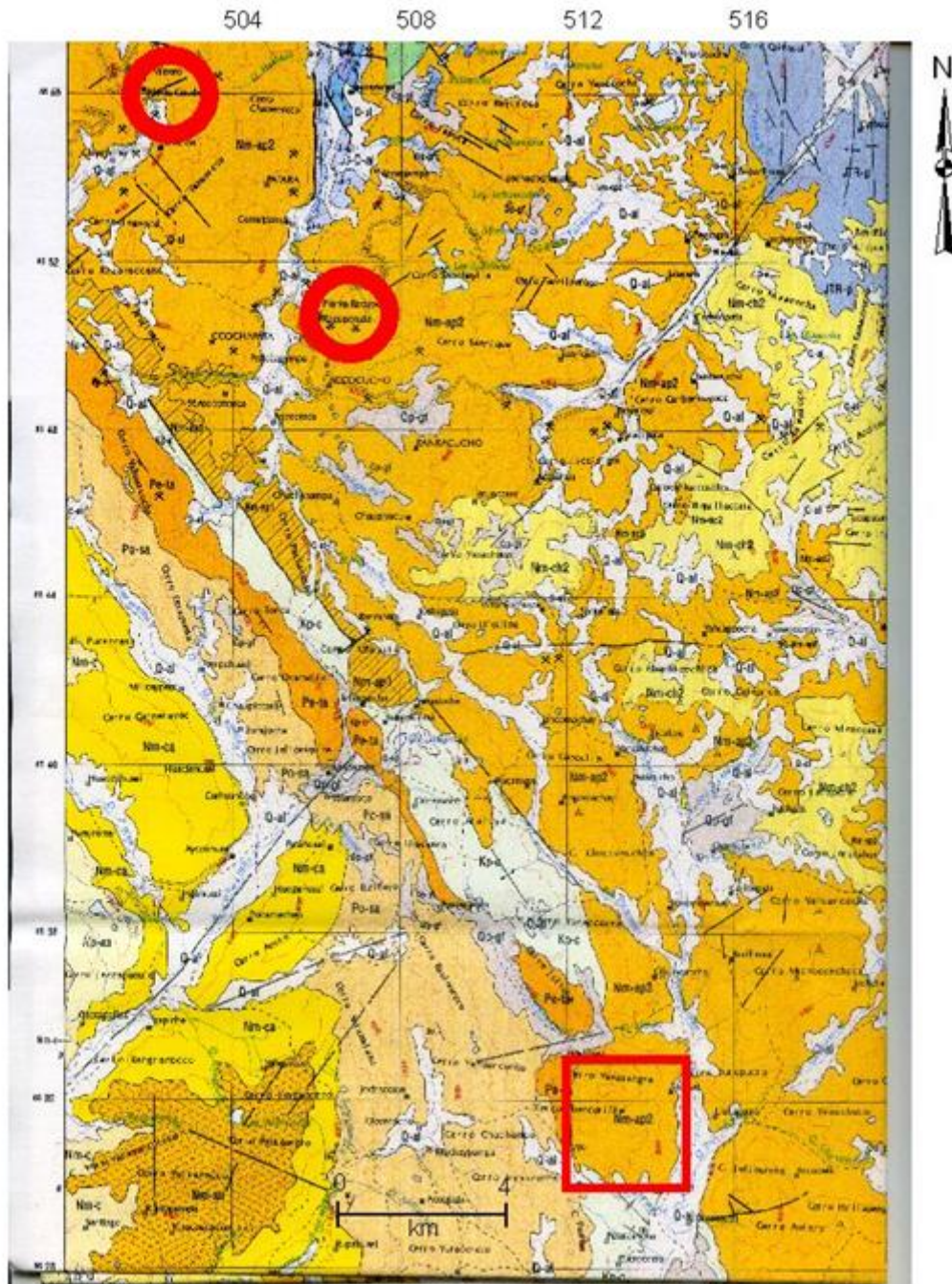




Table 14: Legend to Figure 25

**LEYENDA (LEGEND)**

SISTEMA	SUBSISTEMA	SERIE	UNIDADES DESTACADAS		POSICIONES	
			SECUNDA OCCIDENTAL	SECUNDA ORIENTAL		
CENOZOICO	CUATERNARIO	ALUVIAL	Depositos Aluviales	Q-al		
		GLACIAL	Dep. Glaciares	Q-g		
	NEOGENO	PLUENICO	Fm. Anahuasi	Np-aa	Fm. Huachocolpa	Np-cc3
		MIOCENO	Fm. Aucayacu	Np-ac	Fm. Huachocolpa	Np-cc2
			Fm. Aucayacu	Np-ac	Fm. Huachocolpa	Np-cc1
			Fm. Aucayacu	Np-ac	Fm. Huachocolpa	Np-cc
	PALEOGENO	OLIGOCENO	Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
		EOCENO	Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
			Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
			Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
MESOZOICO	CRETACEO	CRETACIO	Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
		CRETACIO	Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
	JURASICO	UPPER	Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
		LOWER	Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
	TRIASICO	UPPER	Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
		LOWER	Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
	PALEOZOICO	PERMIANO	Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
		CARBONIFERO	Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
			Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc
		DEVONIANO	Fm. Cuzco	Np-oc	Fm. Huachocolpa	Np-cc

**Property Geology**

The Toro Blanco Property is underlain by a volcanic dome complex consisting of volcanic rocks mapped by the Mining and Metallurgical Geologic Institute of Peru as part of the upper Apacheta Formation, Huachocolpa Group of middle-Cenozoic age. The dome complex forms a prominent circular-shaped mountain that fills the 9 sq. km. of the concession area. Topographic relief of this mountain from its base to the highest ridge is 700 m (4,200 to 4,900m).

The predominant rock types in the dome complex are variable volcanic rocks which by their composition, texture and spatial relationships define the history of the dome complex’s emplacement. Volcanic rocks at the base of the dome are generally flat-lying or gently dipping into the Toro Blanco Property peak.

A small intrusive rock was identified intruding the volcanic pile in the east-central portion of the Toro Blanco Property. Younger intrusive rocks also cut the volcanic pile throughout the Toro Blanco Property.

## **Lithology – Volcanic Rocks**

### *Andesite-a volcanic rock type*

Most of the volcanic rocks on the Toro Blanco Property are andesite. Bedding of the andesite is generally flat-lying or dipping moderately away from the center of the dome as seen near the eastern margin of the Toro Blanco Property.

Found at mid-level elevations on the eastern side of the Toro Blanco Property. Outcrops of this unit range in thickness from 5 – 10m.

On top of the explosion breccia is a unit of unconsolidated volcanic material interpreted to be air fall material approximately 10m thick. This unit is not well exposed except where cut through by erosion such as in the creek at 514200E, 8531600N.

The explosion breccia and overlying air-fall represent the initial explosive phase leading to the emplacement of the Toro Blanco Property dome.

A distinctive breccia outcrop in the southeastern sector of the Toro Blanco Property may also be part of this explosion breccia. These outcrops show a moderately steep dip to the southeast away from the dome center. As in the other explosion breccia outcrops to the N, the fragments in this area of outcrop are generally moderately to strongly silicified.

### *Trachyandesite – a volcanic rock type*

This rock type is exposed at high elevations in the central-west sector of the Toro Blanco Property.

### *Dacite – Rhyodacite – a volcanic rock type*

The central high ridge of the dome complex is composed of this rock type.

## **Lithology – Intrusive Rocks**

### *Diorite Hypabyssal Intrusive-an intrusive rock type*

A high ridge in the east-central portion of the Toro Blanco Property is primarily composed of this rock type and is oriented NNE along the apparent southeastern rim of the volcanic dome, exposed over a distance of 800m and averaging 100m wide.

Another breccia zone within the diorite forming a prominent linear outcrop measuring 50m across is found on the northern side of the ridge on trend with a postulated east-to-west trending fault. The western limits of this breccia are sharply defined against a blocky, massive outcrop of moderately silicified diorite.

A broad area of argillically altered diorite is found below the ridge line on the eastern side toward the N end where the ridge is terminated by a creek. The diorite is exposed as soft sub-crop with abundant iron-oxide-filled fractures.

### *Dacite Hypabyssal Intrusive- an intrusive rock type*

A small-area of this rock type outcrops in the center of the Toro Blanco Property (513,310E; 8,531,760N). The outcrop has been subject to weak argillic alteration with moderate silicification in the matrix and minor quartz-(pyrite) veinlets. Fine pyrite is disseminated in the matrix, 1-2%.

*Mafic Dikes- a type of intrusive rock*

Young rocks of this type cut the older volcanic rocks locally at higher elevations on the mountain. The most prominent outcrop is found at 513330E, 8531720N, trending N45W.

### **Hydrothermal Alteration**

As a result of complex geologic processes, hot, acidic fluids (called hydrothermal fluids) carrying different chemical components, sometimes including metals of economic interest, may percolate up through faults, fractures or other breaks or conduits in the earth's crust. When these fluids interact with cooler rocks, of differing compositions, nearer the earth's surface, substantial changes to the original rock may occur. This is called alteration, and the type and intensity of alteration, and other factors can be used as a vectoring tool to lead to areas of potentially economic interest.

The following section describes the different alteration types observed at Toro Blanco from weaker to more intense alteration.

#### *Argillic*

Most of the rocks on the Toro Blanco Property have the appearance of argillic alteration, either from hydrothermal alteration related to the deposition of mineralization or steam-heated alteration resulting from the cooling process in the volcanic rocks.

The key to the difference between these types of alteration is the presence of quartz as veinlets or silicification in the groundmass. Geochemical anomalies (Au + pathfinder values) also help identify hydrothermal alteration versus steam-heated alteration.

Argillic alteration on the property is noted where the rock is altered to white clay with rusty iron oxides. Pyrite is commonly found disseminated throughout the rock but may not necessarily be a product of hydrothermal alteration. Silicification of the rock matrix is generally weak.

Primary clay minerals in the zones of argillic alteration were previously identified by Geologix as illite and kaolinite.

#### *Advanced Argillic*

Advanced argillic alteration is noted where the rock is completely altered to clay (kaolinite, dickite, pyrophyllite, sericite) with the presence of the mineral alunite. Alunite also forms veinlets in wall rock parallel to silicified ribs. A later development of alunite, which is not representative of advanced argillic alteration is found locally as fracture filling or veinlets of light brown color and of massive, amorphous form.

Quartz is present as fine veinlets ± pyrite, generally as sheeted veins or a complex network of quartz veinlets. In general the advanced argillic alteration shows stronger silicification of the rock matrix and common disseminated pyrite.

Tourmaline, a mineral containing boron, was recognized as clusters filling 2-5% of small vugs in altered volcanic rocks along the eastern side of the mountain. In this same area portions of the volcanic rock is replaced by a dark siliceous filling that in some discrete spots in the groundmass shows a fibrous texture that may reflect quartz-tourmaline pyrite compositions.

#### *Phyllic*

Geologix identified several occurrences of this alteration in intrusive outcrops in the east-central sector of the Toro Blanco Property that coincide with an advanced argillic alteration zone. The phyllic alteration may have overprinted the older advanced argillic alteration as the ascending fluids in the hydrothermal system became less acidic

with an increased component of ground water. This stage of alteration may also have included the tourmaline mineralization observed in the vugs of the silicified andesite.

### *Silicic*

Rock that has been completely replaced by silica is mapped as silicic alteration. Most commonly the replacement by silica results in a vuggy texture due to the leaching of some minerals. In some locations on the high ridges a light-gray, silica either replaces the rock or fills fractures forming veinlets and small brecciated zones. Pyrite is generally present in diminished amounts in the vuggy silica. The silicic alteration commonly shows dark-gray zones that likely represent an increased content of very fine pyrite in the quartz.

Silicic alteration appears to be controlled by the original open spaces in the volcanic rocks so that a 1-2m-thick unit may show silicic alteration sandwiched between argillically altered units with very little silica replacement.

Silicified outcrops are common in the NE portion of the Toro Blanco Property with a prominent trend direction of N25-30 degrees W. These are resistant to erosion due to the silica replacement or stockwork of fine quartz  $\pm$  pyrite veinlets through the volcanic rock.

Minor amounts of barite, another mineral, were found locally associated with silicic alteration.

### *Quartz Veining*

Quartz veining on the Toro Blanco Property occurs in localized zones in the volcanic rocks. Most commonly the quartz veins are very fine, < 2mm in width, and have 2 – 5% pyrite content or iron-oxide minerals where oxidized. Zones of more intense fracture-fill veining show anastomosing veins with widths to 5 cm that grade into breccia zones. Regardless of width or density of veining, most quartz veins are sheeted and dominantly oriented N10-30W. NE and E-W orientations of sheeted veins are common but less prominent. Complex nets of small quartz veins with two or more equally prevalent vein orientations are rare.

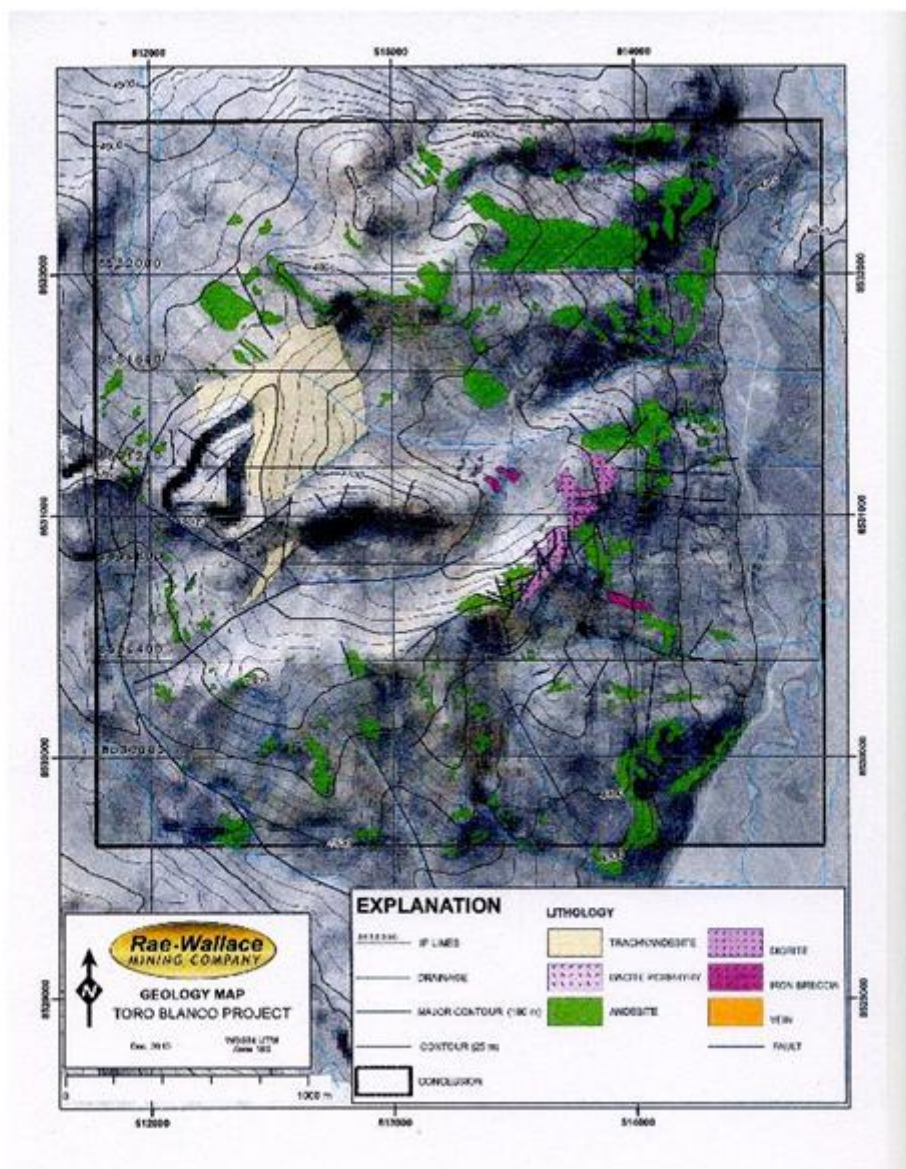
At least two generations of quartz veining are evident in outcrop. Veins in NE to E-to-W orientations represent an earlier generation of hydrothermal activity; these were later cut at high angles by the NNW oriented veins.

### *Hydrothermal Breccia*

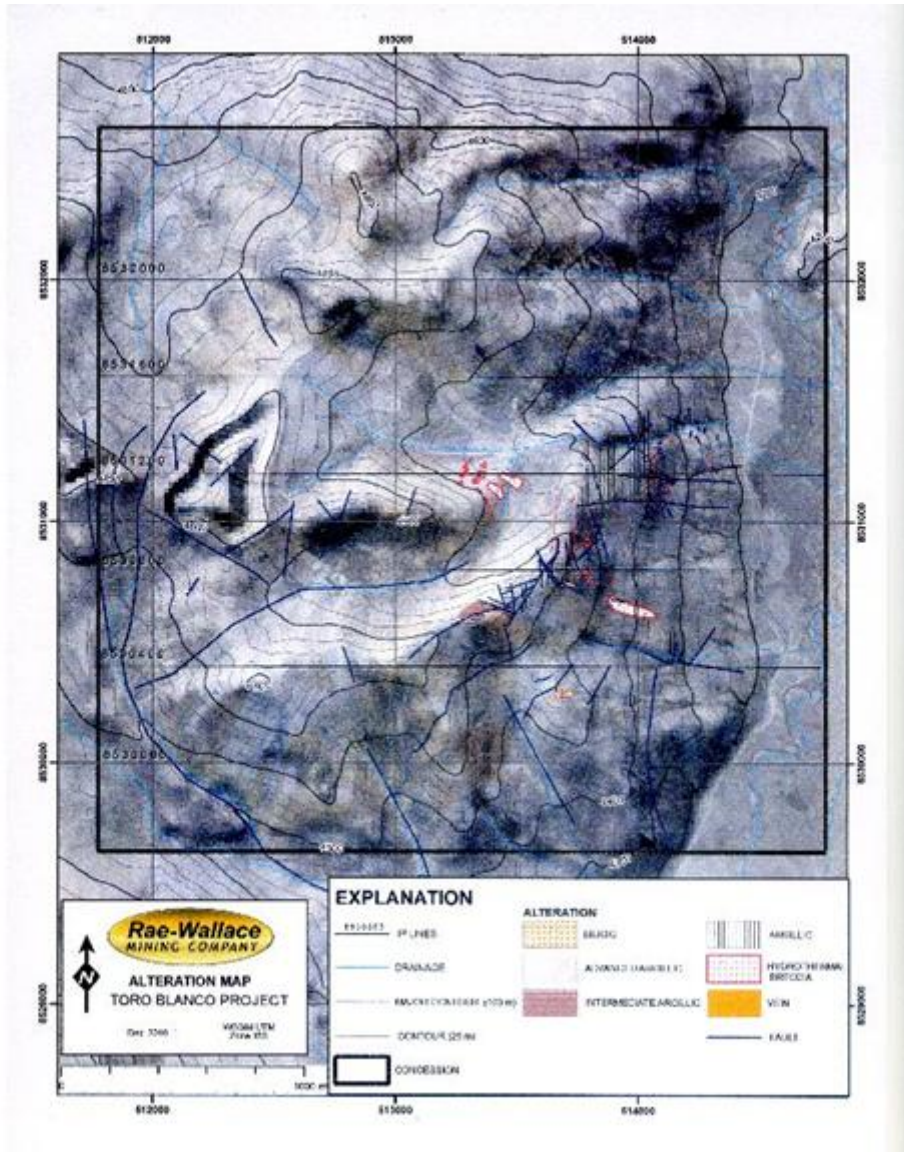
A zone of hydrothermal breccia is exposed below a high ridge in the east-central sector of the Toro Blanco Property. The high ridge was formed as a result of the pervasive silicification ( $\pm$  alunite) of the volcanic rocks along this trend; parallel to the east of this silicic zone is a swarm of breccia structures 0.5 – 2.0m wide trending roughly N-S and cutting volcanic rocks showing nearly horizontal flow foliation. The matrix of the breccia ranges from vuggy or massive silica to a white siliceous material that may be a combination of quartz-alunite (alunite possibly supergene) with 1-2% disseminated fine-grained pyrite. Volcanic clasts in the breccia are all altered by quartz-alunite or pervasive silicification.

A hydrothermal breccia structure found in the NE portion of the Toro Blanco Property (514060E, 8531825N) trends N 25 degrees E, vertical dip, and averaging 50 cm in width. Angular fragments < 1 cm diameter are supported by a vuggy silica matrix with abundant iron oxide. The clasts show a range of alteration grades from argillic to silicic.

Figure 26: Toro Blanco Geology



**Figure 27: Toro Blanco Alteration**

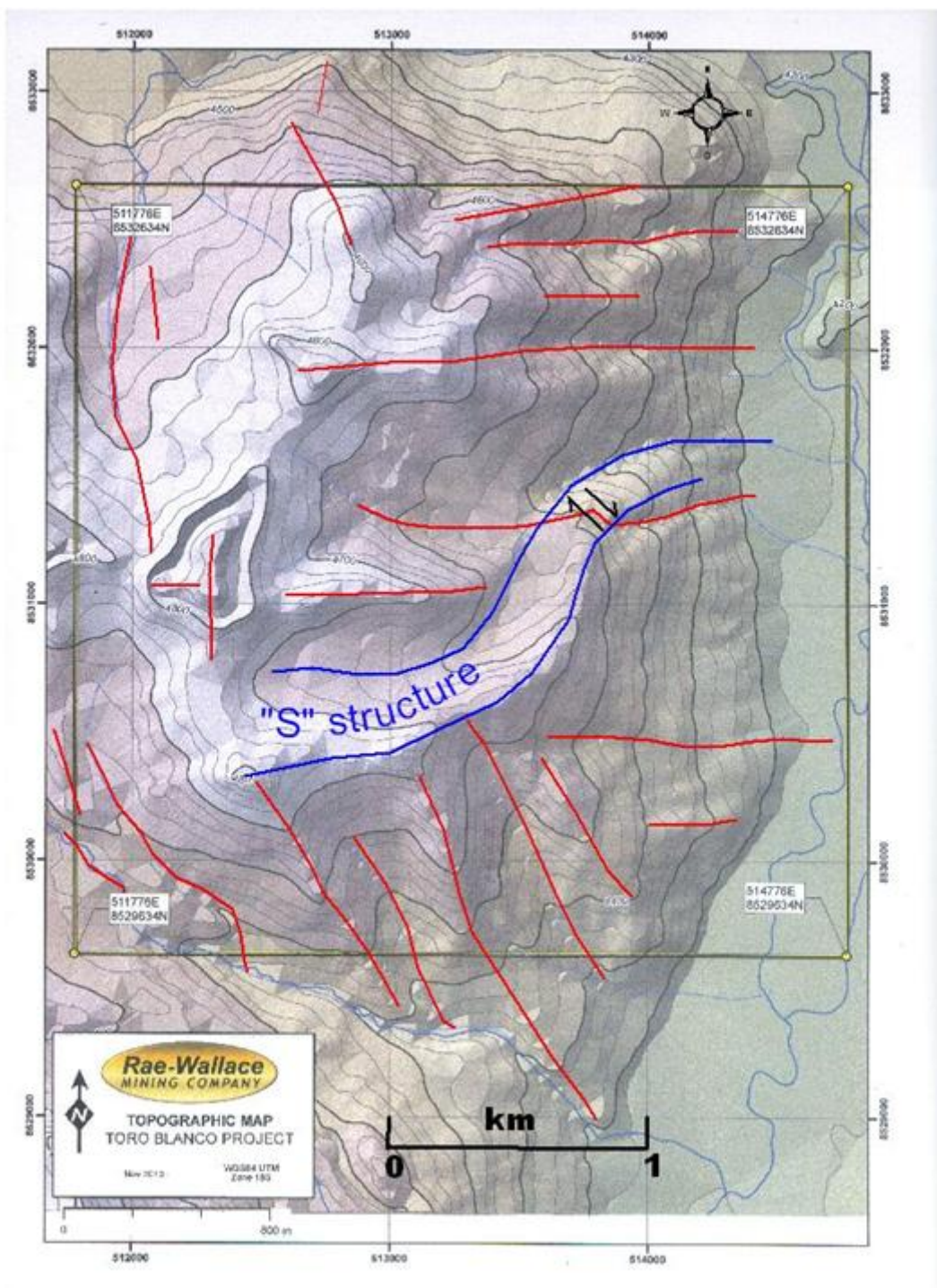


*Lineament Analysis*

An analysis of linear elements on the Toro Blanco Property is presented in Figure 28. Essentially, there are two main trends, NNW and E-W. The NNW-trending tensional fractures control the emplacement of mineralized veined bodies in the region, and E-W-trending fractures are common conjugates to the NNW-trending fractures. They also report that there is little or no displacement associated with these fracture sets.

There is one sinuous feature, referred to as the “S” structure in Figure 28, that appears to cut the NNW and E-W-trending fractures. Because of its shape and the apparent displacement of an east-west lineament, it appears that this is a dextral shear zone or fracture zone. The “S” structure has an overall E-NE trend and, is at least spatially associated with the best-defined zone of Au anomalies.

Figure 28: Lineament analysis



## Exploration

Exploration since the Toro Blanco Property was staked in 2005 includes geological and alteration mapping, reconnaissance-level rock and soil sampling, trenching, and a reconnaissance-scale geophysical survey. Results of the geological and alteration mapping were previously described. Except for the geophysical survey, the exploration work was carried out by geological personnel of Geologix and the Subsidiary. The geophysical survey was contracted to Fugro and the data interpreted by the Van Blaricom Research Institute. The data is reliable inasmuch as the work was done by professionals, there are no unrealistic results, the exploration methods were routine, and the assays were conducted in ISO-certified labs.

### Exploration Expenditures

Table 15 summarizes estimated exploration expenditures incurred on the Toro Blanco Property for the years 2008 to 2010.

**Table 15: Toro Blanco Exploration Expenditures**

<b>Toro Blanco Cost Category</b>	<b>Cost US\$</b>
General & Administrative Expenses	54,166.00
Field Labor	10,932.00
Field Supplies, Maps	12.00
Camp Cost	4,464.00
Other Misc.	2,284.00
Equipment Rental / Repair	2,203.00
Transportation	1,276.00
Assays	4,502.00
Meals	3,614.00
Consultants (mainly geological contractors)	49,577.00
Travel	2,191.00
Annual Concession Fees	2,759.00
Courier / Postage	6.00
Geophysics Surveys	32,220.00
Valuation Reports	4,472.00
Communities	1,552.00
Payroll (in house)	8,075.00
<b>TOTAL</b>	<b>184,305.00</b>



## Rock and Trench Sampling

Table 16 summarizes the rock sampling completed on the Toro Blanco Property to date.

**Table 16: Rock-sampling summary**

Company	Samples	Year	Type
Geologix	254	2005-2009	Reconnaissance, mainly chip samples with typical dimension of 2 to 8 m. Some samples taken off- property, none of which returned >5 ppb Au
Subsidiary	160	2010	Reconnaissance, mixture of chips, channels and panels; with typical dimension of 2m.
Subsidiary	119	2010	Trenching, 5 trenches with channel samples taken at 2m intervals
Company	9	2010	Chips and select grabs
<b>TOTAL</b>	<b>542</b>		

Figure 29 is a geochemical interpretation of Au in rocks for most of the samples listed above (some of the Geologix samples were taken off property). Note that the P-Zone within the blue polygon on Figure 29 contains almost all of the Au anomalies obtained to date.

Figures 30 (molybdenum), 31 (Cu) and 32 (Pb) are similar interpretations for the three elements with anomalies that also cluster in the P-Zone, although they are not necessarily correlative with Au anomalies. Figure 33 is a geochemical interpretation of Au in trench samples. Table 17 illustrates the marked difference between assay results within the P- Zone and outside of the P-Zone for Au and molybdenum, and to a much lesser extent for Cu and Pb. (The average for Pb is highly skewed by one very anomalous assay [ $>1.0\%$ ] outside of the P-Zone.

**Table 17: Distribution of Au, molybdenum, Cu and Pb assays**

Zone	samples	median Au	avg Au	median Mo	avg Mo	median Cu	avg Cu	median Pb	avg Pb
in P-Zone	293	30 ppb	51 ppb	12 ppm	20 ppm	19 ppm	30 ppm	22 ppm	42 ppm
out of P-Zone	249	<5 ppb	9 ppb	3 ppm	6.7 ppm	12 ppm	26 ppm	17 ppm	79 ppm

There is an overall high regional concentration of arsenic (median 60 ppm, average 188 ppm) and phosphorus (median 300 ppm, average 559 ppm), but there are no specific zones of anomalous arsenic or phosphorus. There is a weak correlation between Au and phosphorus.

Figure 29: Au in rock, N=542. Blue polygon shows anomalous zone possibly related to “S” structure (dashed black lines)

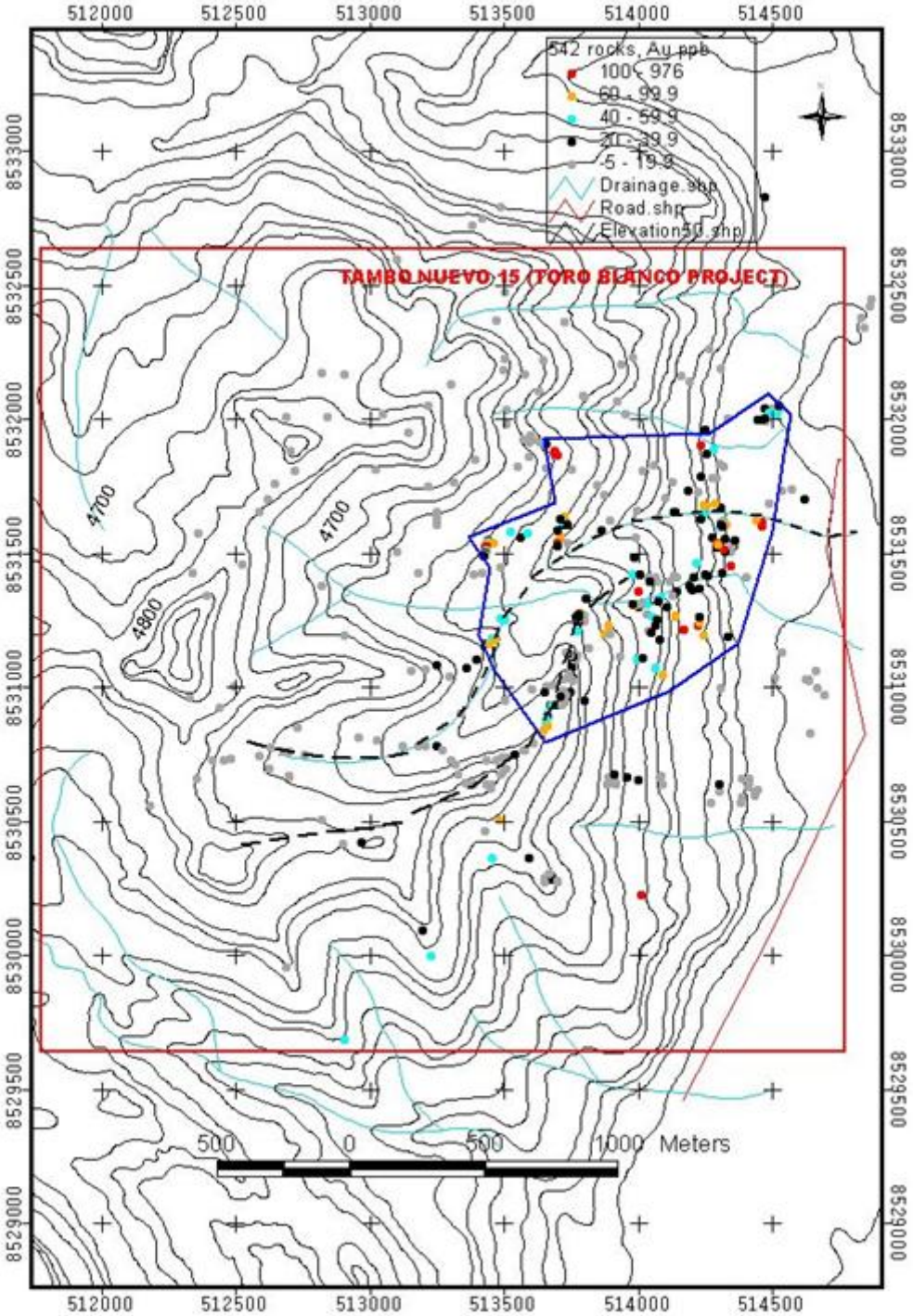


Figure 30: Molybdenum in rock, N=542. Blue polygon shows anomalous zone possibly related to “S” structure (dashed black lines)

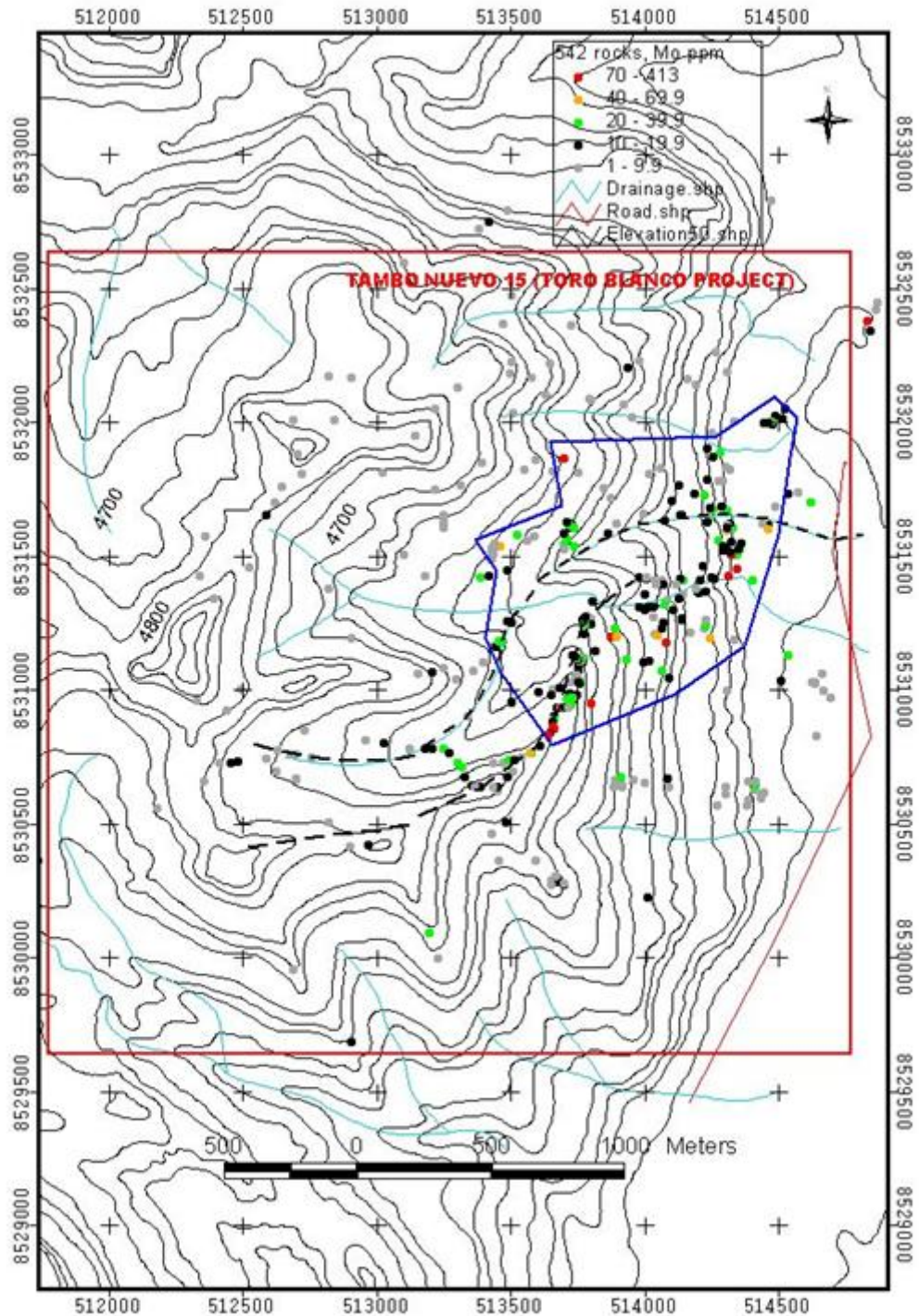


Figure 31: Cu in rock, N=542. Blue polygon shows anomalous zone possibly related to “S” structure (dashed black line)

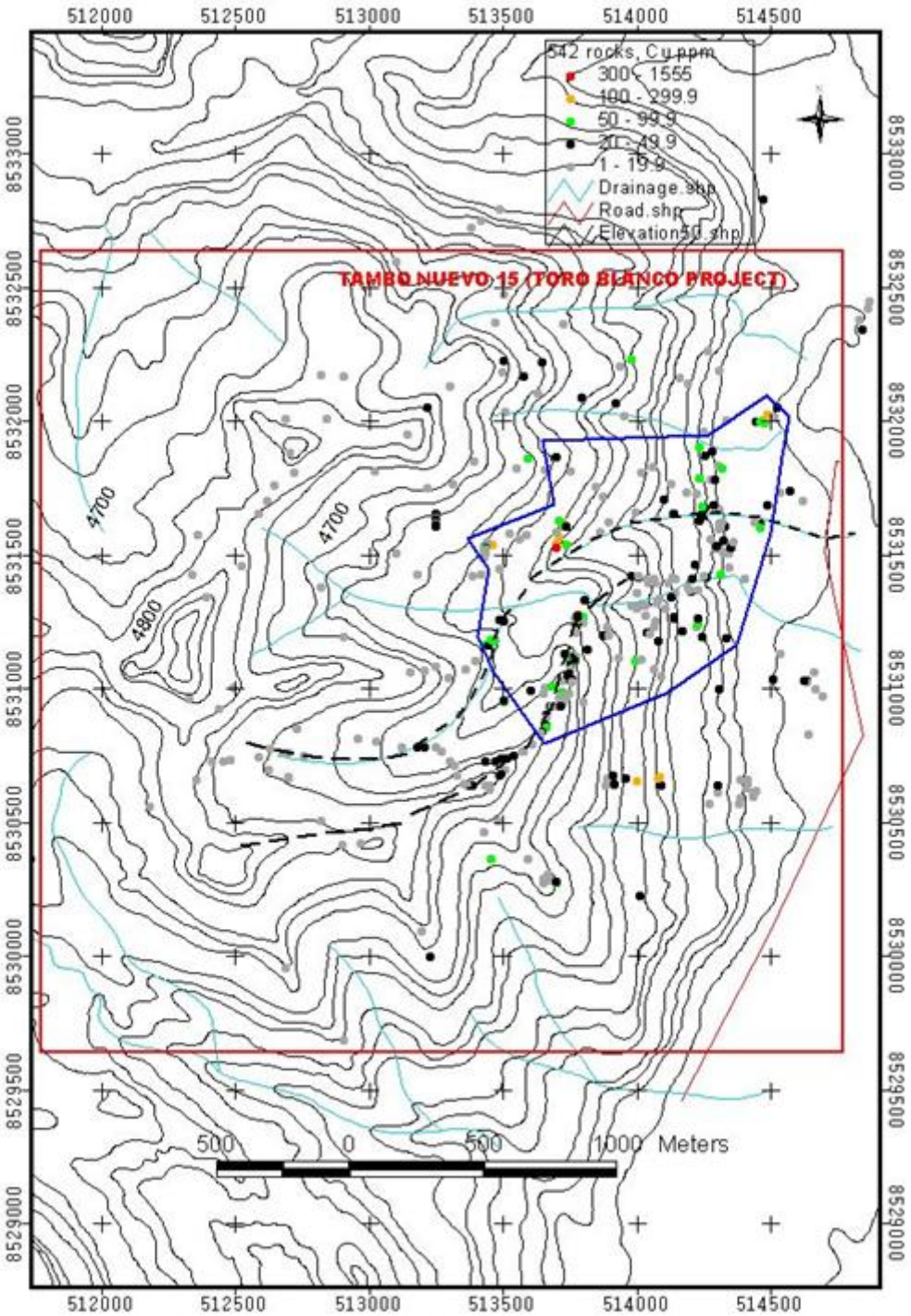


Figure 32: Pb in rock, N=542. Blue polygon shows anomalous zone possibly related to “S” structure (dashed black lines)

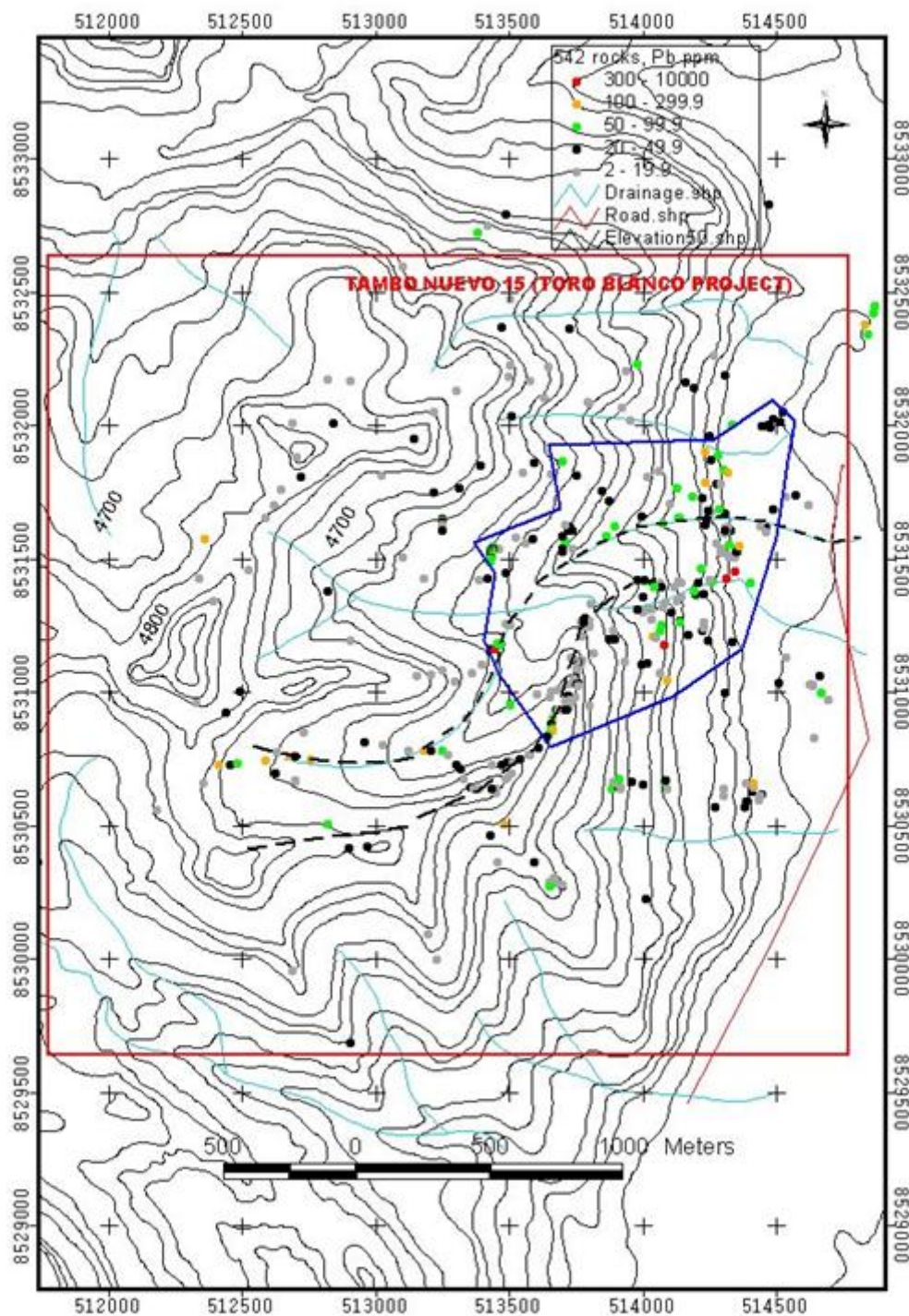
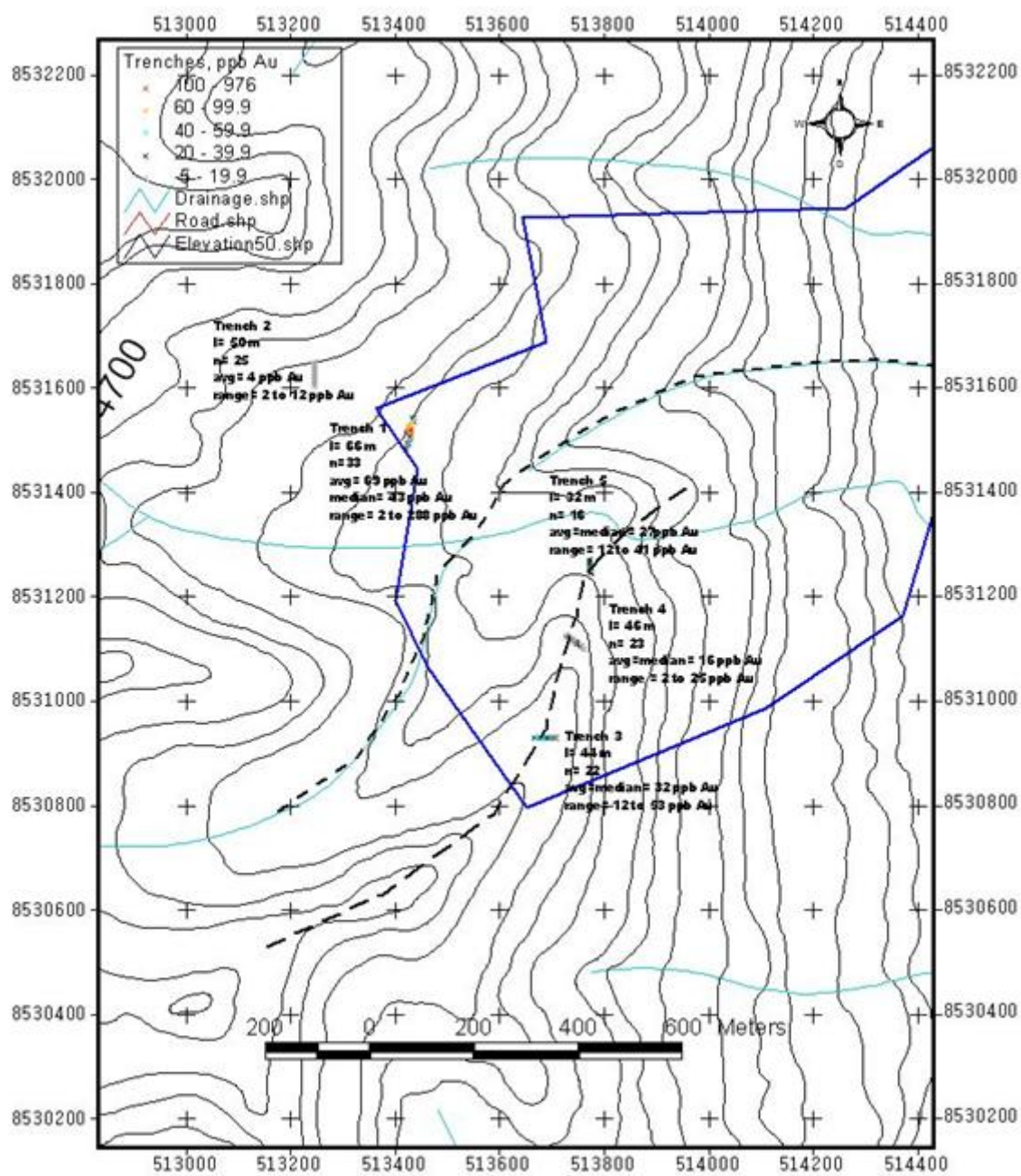
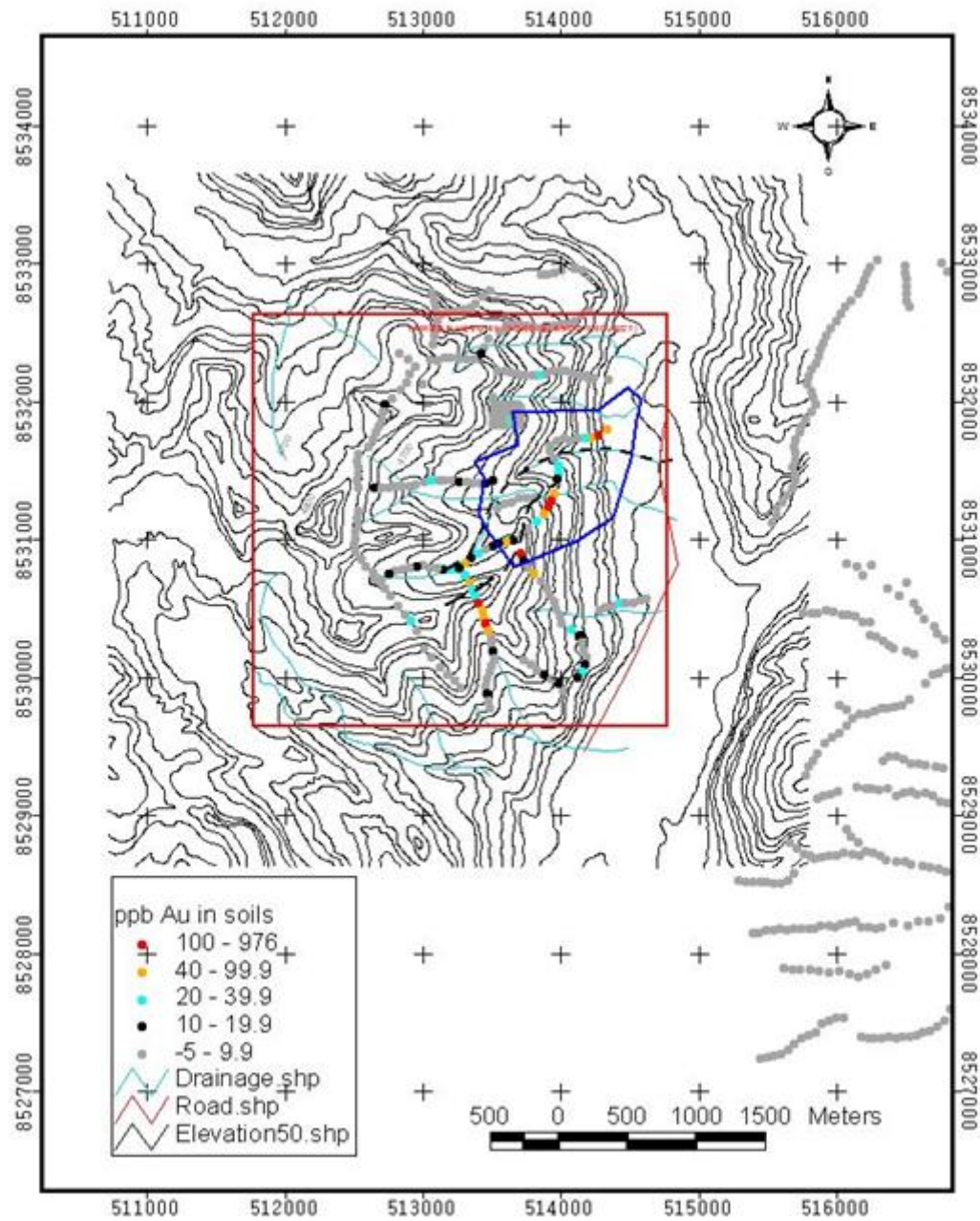


Figure 33: Au in trench samples. Scale can be appreciated by the blue polygon and the black dashed lines, which are common to Figures 29 and 30



**Figure 34: Au in soils. Scale can be appreciated by the blue polygon and the black dashed lines, which are common to Figures 29, 30 and 33**



### Deposit Type

Based on the age and lithology of the host rocks and based on the alteration assemblage (intermediate to advanced argillic alteration) there is little doubt that the Toro Blanco Project is a high-sulphidation epithermal-Au prospect. Examples of such deposits in Peru include Yanacocha, Pierina and Alta Chicama. Examples elsewhere in the world include Rodalquilar in Spain, El Indio in Chile, Paradise Peak in Nevada, and Lepanto in the Phillipines.

## **Soil Sampling**

Results of a soil-sampling survey done by Geologix are shown in Figure 34. Soils were assayed for Au (fire assay) and for 34 other element (ICP). A total of 550 soil samples were taken, of which half were collected outside of the Toro Blanco Property. Judging by the descriptions of the samples in Appendix 5 to the Toro Blanco Technical Report, the soils were probably colluvial fines. No Au anomalies were detected outside of the Toro Blanco Project. Within the Toro Blanco Property, most Au anomalies (which range up to 662 ppb) are spatially associated with the P-Zone and the “S” structure. The average Au content of all soils taken off-property is <5 ppb. The average Au content of all soils taken within the property is 16 ppb. The average Au content of the 48 soils collected within the P-Zone is 43 ppb.

A string of adjacent Au-in-soil anomalies (10 samples spanning 600m and containing 26 to 149 ppb Au) to the southwest of the P-Zone and along the trajectory of the “S” structure suggests the presence of a bedrock source of Au that has yet to be identified. The position of these soil anomalies, and the presence of some modest molybdenum-in-rock anomalies in the same general area (Figure 30), suggests that the P-Zone could be extended further to the southwest with additional detailed exploration.

## **Geophysical Survey**

The subsidiary geophysical program, done in 2010, comprised 18.8 line km of induced polarization resistivity transects across six equal-length east-west lines separated by 400 m and covering the entire Toro Blanco Property as shown in Figure 35. The survey was carried out by Fugro, a respected provider of geophysical services in Peru. The geophysical information was interpreted by Dr. Van Blaricom, an American geophysicist with decades of experience evaluating epithermal deposits. Van Blaricom’s geophysical report is reproduced, in its entirety, in Appendix 6 of the Toro Blanco Technical Report. Van Blaricom correctly states that the induced polarization data carry more weight than the resistivity data for the model of high-sulphidation Au mineralization. He reports that the tenor of induced polarization responses on the Toro Blanco Project is “impressive”.

Parameters for the geophysical survey are as follows: The configuration was a time-domain dipole-pole arrangement using an “n” spacing of 0.5, 1.5, 2.5, 3.5 and 5.5. This half-spacing array increases the shallow-depth resolution of the survey. As shown in Figures 36 and 37, there are obvious differences in the geophysical responses across the P-Zone on line 8531600N (high chargeability and high resistivity) and afar from the P-Zone on line 8530000N (much lower chargeability and moderately lower resistivity). The geophysical information supports the geological and geochemical evidence that the P-Zone (and its possible extensions) is the top-priority target that has been identified on the Toro Blanco Property.



Figure 35: Geophysical transects at 400-m intervals across the Toro Blanco property (scale can be appreciated by the blue polygon and the dashed black lines, which are common to Figures 29 through 34)

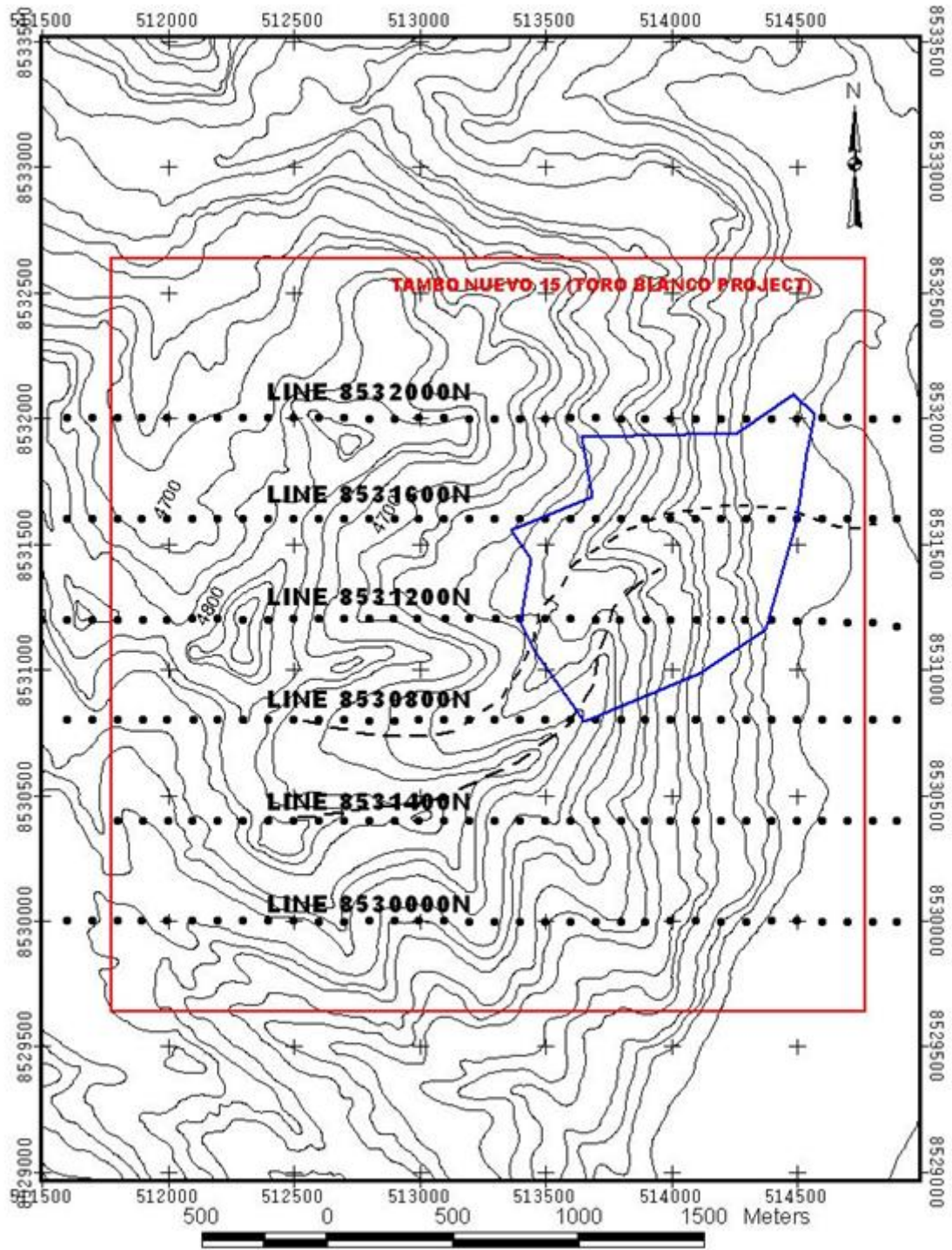


Figure 36: IP-Resistivity profiles across the “Polygon Zone”, line 8531600 N



Line 8531600 N IP Resistivity Profile Toro Blanco Project Peru  
for Rae Wallace Mining Company

Plate 5 A

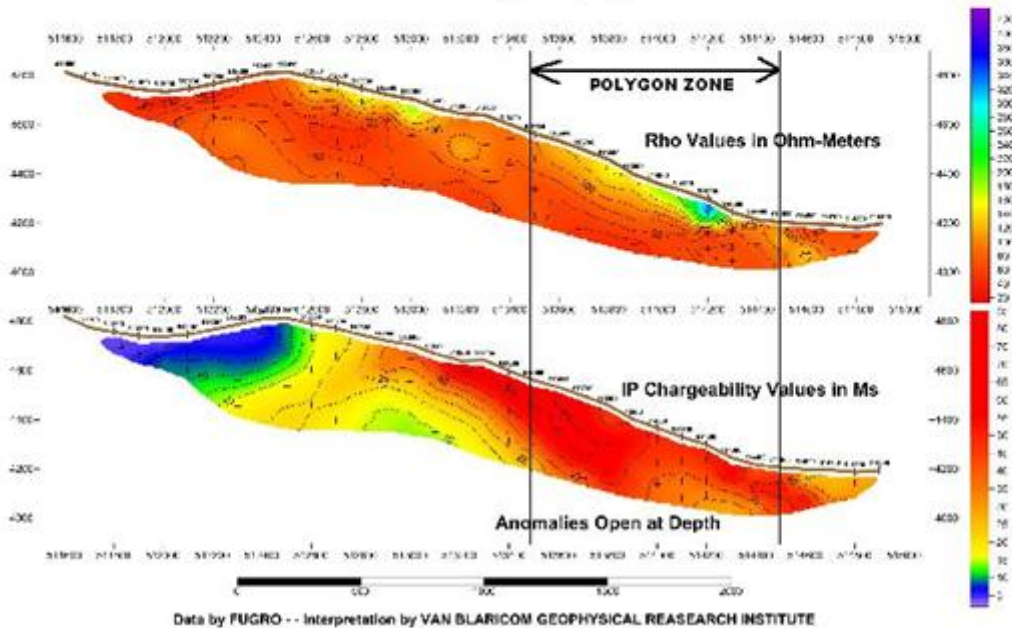
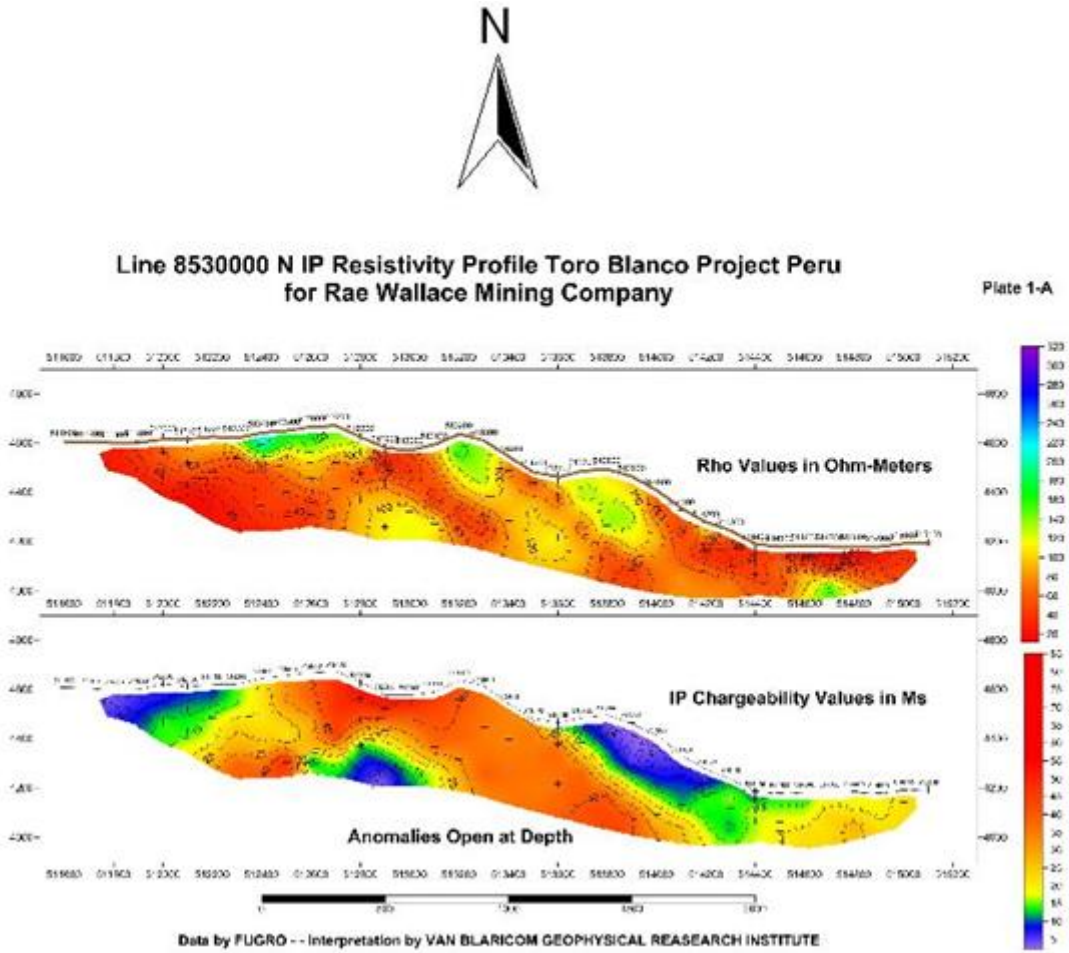


Figure 37: IP-Resistivity profiles south of the “Polygon Zone”, line 8530000 N



## **Mineralization**

No specific mineralized zones have been found on the Toro Blanco Property. Rather, Au-in-rock geochemical anomalies of up to 976 ppb have been found within a 94-ha of the Toro Blanco Property referred to as the P-Zone.

The P-Zone is characterized by extensive clay and silica alteration that gives it a bleached appearance that can be appreciated from a distance of km (see Plate 16-1). The P-Zone spans a vertical extent of 300m, is 1,400m long and, on average, is about 700m wide. It is centered on the east half of the “S” structure. Indirect evidence (Au anomalies in soil samples and rock geochemical anomalies for molybdenum, which appears to be spatially associated with Au anomalies) suggests that the P-Zone could be extended to the southwest along the “S” structure with further exploration effort.

Within the P-Zone, which occupies about 10% of the Toro Blanco Property, Au assays are geochemically anomalous ( $\geq 40$  ppb, maximum 976 ppb) for 101 of the 293 rock samples collected. In other words, 34% of all rock samples taken from the P-Zone have geochemically anomalous concentrations of Au. Although 94 of the 293 rock samples were taken from 4 trenches, this does not affect the statistics inasmuch as the distribution of Au values in the trench samples is similar to the distribution of Au values in the reconnaissance samples.

Outside of the P-Zone, Au assays are geochemically anomalous ( $\geq 40$  ppb, maximum 244 ppb) for only 5 of the 249 rock samples collected (including 25 samples from one trench, none of which yielded anomalous Au). In other words, only 2% of all rock samples taken outside of the P-Zone have geochemically anomalous concentrations of Au.

These results indicate that the P-Zone is the premier target for more advanced exploration efforts on the Toro Blanco Property.

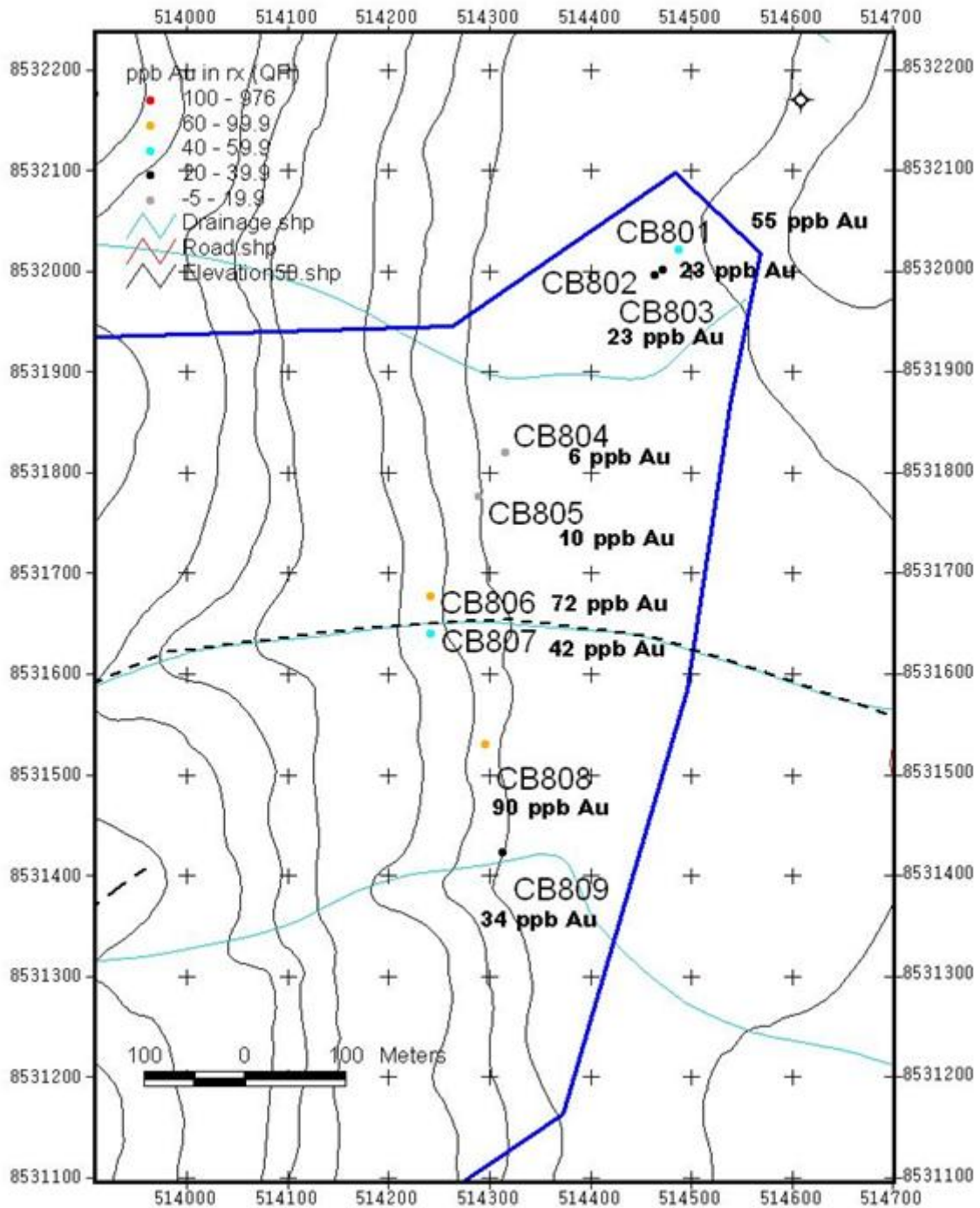
## **Sampling and Analysis**

The sampling method and approaches used by Geologix and the Subsidiary for the rock-sampling and soil-sampling programs is unknown, but it is assumed that, given both are reputable companies, industry best-practices standards were used. In the field, numerous scars on outcrops attesting to physical sampling were observed along with numerous fragments of flagging tape and illegible remnants of painted numbers marking sample locations. In other words, field evidence substantiates the completion of a systematic sampling program, as does the office evidence (laboratory certificates, spreadsheets, etc).

**Table 18: Analytical Results of Check Samples**

#	WGS84E	WGS84N	Elev'n	Type	L(m)	Direction	Structure	Description	Au ppb	Cu ppm	Mo ppm	Pb ppm
CB801	514487	8532020	4276 m	chip	1.5	vert	S0=150/10	andesite flow strong limonite alteration in vugs, fractures, and medium crystalline; quartz microveinlets; argillic	55	124	11	20
CB802	514471	8532000	4285 m	select	3.0	270	vein=270/84	silicified structure 2-6 cm, argillic, veinlets & microveinlets, alunite? (advanced argillic alteration)	23	115	24	25
CB803	514463	8531995	4286 m	chip	1.2	vert	vein=255/90	altered tuff, stockwork microveinlets with fine grained disseminated pyrite, limonite+manganese oxide+	23	86	18	31
CB804	514316	8531820	4384 m	chip	1.8	vert	no comment	altered tuff, silicification +quartz inundation micro veinlets, fine grained disseminated pyrite, clay after feldspar, intermediate argillic alteration	6	53	3	112
CB805	514289	8531776	4396 m	chip	1.8	35	S1=320/85	shear zone in tuff, very weak silica alteration. Sample taken to discard.	10	38	3	10
CB806	514241	8531677	4404 m	chip	7.0	70	no comment	tuff, strong argillic alteration, common coarse grained to fine grained pyrite	72	52	13	43
CB807	514242	8531639	4428 m	chip	2.5	120	no comment	tuff, silicified matrix, minor quartz microveinlets, limonite boxworks	42	34	20	12
CB808	514296	8531530	4422 m	chip	2.5	20	no comment	altered tuff, silicification +quartz inundation microveinlets, fine-grained disseminated pyrite, clay after feldspar, intermediate argillic alteration	90	41	18	16
CB809	514313	8531422	4401 m	select	0.4	na	no comment	vuggy silica with limonite	34	60	79	584

**Figure 38: Samples and Au assay results. Scale and location can be appreciated by the blue polygon and the black dashed lines, which are common to Figures 29, 30, 33 and 34**



### Sample Preparation, Analysis and Security

ALS Chemex in Lima, Peru, is an ISO 9002-certified laboratory and was the exclusive laboratory used for analysis of project samples and check samples for Geologix. At the laboratory, the rock and core samples were weighed, logged, and crushed to 70% <2mm. Samples were then separated in a riffle splitter to obtain a 250-g sub-sample. This was pulverized to 85% <75µm and a 30-g split were analyzed for Au by fire assay with an atomic-absorption

finish. Thirty-four additional elements were analyzed using ICP methods. Soil samples were analyzed using the same procedure, except that the soil samples were dry-sieved to 80 mesh (less than 180 µm).

Inspectorate Services Peru SAC, which is also an ISO-certified laboratory in Lima (ISO 9001:2008 No. 39041), was the laboratory used by the Subsidiary. Au was analyzed by fire assay with an atomic-absorption finish using similar procedures as reported for ALS above. Thirty-two other elements were analyzed by ICP (inductively coupled plasma mass spectrometry).

The Company is satisfied with the adequacy of sampling, sample preparation, security and analytical procedures for the rocks and soil samples.

## **Exploration and Development**

There are many high-sulphidation epithermal systems that have the correct alteration, the correct age (Tertiary), the correct host rocks (volcanics), and yet barely a trace of economically valuable metals. The acid-sulphate solutions that generated these alteration zones were barren. Of course, these prospects are rarely mentioned in the geological literature (because they are of no economic interest), and so there are scarce references available that can be included in the Toro Blanco Technical Report.

In the case of the Toro Blanco Property, there is a large area (>90 ha in the P-Zone) that has the correct alteration of a high-sulphidation system, the correct age, the correct host rocks, and also carries geochemically anomalous concentrations of Au, molybdenum and other elements. Therefore, the Toro Blanco Property is a property of merit that warrants additional exploration and reconnaissance-level diamond drilling.

### *Recommendations*

1. A great deal of the property consists of colluvial cover, and it is noted that “soil” sampling of colluvial fines has detected the P-Zone and potential extensions to the southwest. Systematic contour sampling of colluvial fines is recommended for the entire property. Contour sampling should be done at vertical intervals of 100m and at horizontal intervals of 100m. Efforts should be concentrated particularly on the P-Zone.
2. All samples taken in the survey (colluvial fines and outcrop samples) should be analyzed by PIMA (portable infrared mapping analysis) as well as by routine Au fire assay and multi-element ICP. PIMA can help to identify acid-alteration assemblages (clay, silica, alunite, etc) that, together with standard information, can assist in drill-target definition.
3. The P-Zone should be subjected to detailed mapping, sampling and alteration analysis.
4. Reconnaissance-level drilling is recommended (4 vertical diamond drill holes totaling 1,200m) to test a 1,200m strike segment of the P-Zone as illustrated in Figure 39. The proposed holes are separated from one another by 300m and are to be drilled to a planned depth of 300m using NQ-diameter drill rods. The UTM coordinates (datum WGS 84) of the four recommended drill holes are as follows:
  - a. DDH-1 Easting 514090 Northing 8531960
  - b. DDH-2 Easting 513880 Northing 8531750
  - c. DDH-3 Easting 513675 Northing 8531530
  - d. DDH-4 Easting 513470 Northing 8531310

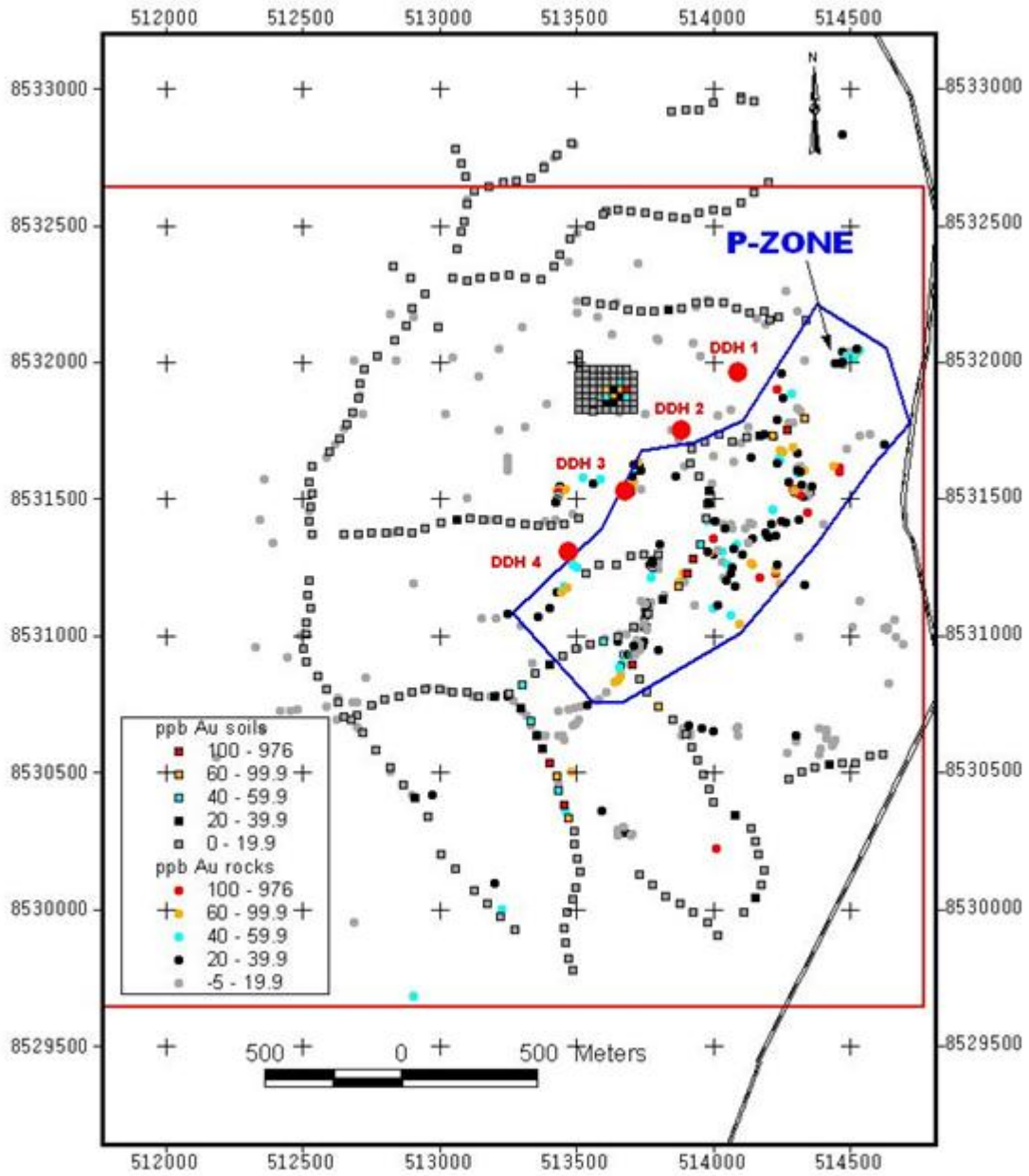
A budget for this proposed exploration program is given in Table 19 and is estimated to require a total of 12 months to complete.

**Table 19: Budget, Proposed Exploration**

<b>ITEM</b>	<b>COMMENT</b>	<b>DETAIL</b>	<b>COST US\$</b>
Contract colluvial-fines sampling	sampling and analyses	10 days at US\$1500/day	15,000.00
Geological Mapping	detailed mapping/sampling of S-Structure and P-Zone	15 days at US\$550/day	8,250.00
Analysis	300 rock; 1200 drill core	1500 samples at US\$34/sample	51,000.00
Drilling	four 300-m diamond drill holes	1200 m at US\$125/m	150,000.00
Camp	fuel, communication, lodging, food	60 days at US\$400/day	24,000.00
Tenure			2,700.00
Community projects and support			20,000.00
Permitting	Environmental Impact Statement in support of Class A (minimum impact) permit for drilling		15,000.00
Contingency			14,050.00
<b>TOTAL</b>			<b>300,000.00</b>



Figure 39: Proposed Drilling, P-Zone, Toro Blanco Property



## USE OF PROCEEDS

### Funds Available

The net proceeds to the Company from the Offering, after deducting the estimated costs of the Offering of approximately \$150,000, and the Agent's Fee, will be \$2,125,000 in the case of the Minimum Offering and \$3,490,000 in the case of the Maximum Offering. As at June 30, 2011, the Company had estimated working capital of approximately \$350,000. The total funds available to the Company after giving effect to the Offering are \$2,475,000 in the case of the Minimum Offering and \$3,840,000 in the case of the Maximum Offering.

### Principal Purpose

The Company intends to use the funds available to meet its stated business objectives to carry out further exploration on the Projects as recommended in the Technical Reports. There is no one particular significant event or milestone that must occur for the business objectives of the Company to be accomplished. The Company intends to use the funds available as follows:

	<u>Minimum Offering</u>	<u>Maximum Offering</u>
Project exploration and drilling <sup>(1)</sup>	\$590,000	\$590,000
Acquisitions	\$200,000	\$500,000
G&A	\$350,000	\$350,000
Working capital <sup>(2)</sup>	\$1,335,000	\$2,400,000
<b>TOTAL</b>	<b>\$2,475,000</b>	<b>\$3,840,000</b>

Notes:

(1) Phase 1 exploration expenditures as recommended in the Technical Reports.

(2) Working capital will be used for Phase 2 exploration expenditures which are to be assessed and allocated after completion of the Phase 1 exploration program.

The Company intends to spend the funds available to it as stated in this Prospectus. There may be circumstances, however, where, for sound business reasons, a reallocation of funds may be necessary in order for the Company to achieve its stated business objectives. The actual use of available funds will vary depending on the Company's operating and capital needs from time to time and will be subject to the discretion of the management of the Company. Pending such use, the Company intends to invest the available funds to the extent practicable in short-term, investment grade, interest-bearing securities and other marketable securities.

It is expected that the net proceeds of the Offering will be sufficient to fund operations of the Company for a period of 12 months. After deducting the estimated expenses of the Offering, the Company believes that it will require approximately \$2,500,000 to achieve its business objectives during the next 12 month period. Other than the costs outlined above in respect of the planned exploration program, the Company does not anticipate any other material capital expenditures during this period of time.

## SELECTED FINANCIAL INFORMATION

The following tables provide a summary of certain financial information of the Company that is derived from the unaudited consolidated financial statements of the Company for the 9 months ended March 31, 2011 and from the audited consolidated financial statements of the Company for the years ended June 30, 2010, June 30, 2009 and June 30, 2008 respectively. These tables contain financial information derived from financial statements that have been

prepared in accordance with GAAP and should be read together with the financial statements and accompanying notes and MD&A.

The fiscal year end of the Company was amended from June 30 to December 31 by a resolution of the Board of Directors, effective June 30, 2011. The Financial Statements, MD&A and all other reference to the Company's fiscal year end contained in this Prospectus are based upon the previous fiscal year end of June 30.

### Consolidated Statements of Operations

	<b>9 months ended March 31, 2011 (unaudited) US\$</b>	<b>Year ended June 30, 2010 (audited) US\$</b>	<b>Year ended June 30, 2009 (audited) US\$</b>	<b>Year ended June 30, 2008 (audited) US\$</b>
<b>Operating Expenses</b>				
Salaries & benefits	230,665	236,541	148,156	82,796
Consulting fees	267,911	192,827	92,870	69,890
Land payments & fees	45,528	36,499	70,044	81,024
Promotion and travel	29,296	Nil	Nil	Nil
Director fees	Nil	Nil	Nil	3,000
Professional fees	70,317	79,373	48,179	32,174
Other general and administrative expenses	203,430	232,933	85,517	53,239
Outside Services	-	-	-	25,797
<b>Other Income (Loss)</b>				
Gain on sale of vehicle	2,947	-	-	-
Interest income	Nil	2,371	12,558	19,478
Impairment of mineral rights	Nil	(31,250)	(71,500)	Nil
Foreign exchange gain	(206)	400	Nil	Nil
Net loss	(851,994)	(806,652)	(503,708)	(328,442)
Net loss per share				
Basic and diluted	(0.05)	(0.06)	(0.04)	(0.04)
Weighted average number of shares outstanding - basic and diluted	19,588,500	13,054,405	12,003,845	7,547,803
<b>Balance Sheet Data</b>				
	<b>As at March 31, 2010 (unaudited) US\$</b>	<b>As at June 30, 2010 (audited) US\$</b>	<b>As at June 30, 2009 (audited) US\$</b>	<b>As at June 30, 2008 (audited) US\$</b>
Total assets	758,858	222,004	636,594	1,141,925
Total liabilities	32,265	145,137	33,575	52,198
Share capital	726,593	76,867	603,019	1,089,727
Deficit	(2,561,430)	(1,709,436)	(902,784)	(399,076)

## **DIVIDEND RECORD AND POLICY**

Since the date of its incorporation, the Company has not declared or paid any dividends on the Common Shares and does not currently intend to pay dividends. Earnings will be retained for the future operation and development of the Company's business.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following MD&A is current to July 8, 2011 and is management's assessment of the operations and the financial results together with future prospects of the Company. This MD&A should be read in conjunction with the Financial Statements, prepared in accordance with GAAP. This discussion contains forward-looking statements that are not historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to Rae-Wallace's future results as there are inherent difficulties in predicting future results. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. Events discussed elsewhere in this Prospectus have not been included in the discussion below.

### **1. Description of Business**

The profitability and operating cash flow of the Company is affected by various factors, including the market price of Au and Ag and other commodities, operating costs, interest rates, regulatory and environmental compliance, general and administrative costs, the level of exploration and development expenditures and other discretionary costs. While Rae-Wallace seeks to manage the level of risk associated with its business, many of the factors affecting these risks are beyond the Company's control.

### **2. Developments during and subsequent to the nine month period ended March 31, 2011**

#### **December 2010 Private Placement**

The fair value of the December PP Warrants issued in connection with the December 2010 Private Placement was estimated on their grant date using the Black-Scholes option price model. The following assumptions were made in estimating fair value: risk-free interest rate of 0.66%; volatility of 100.0%; expected life of 2.5 years; dividend yield of zero.

The December PP Warrants were valued at \$0.075 per share, or \$216,000. The fair value of the December PP Broker Warrants was estimated on their grant date using the Black-Scholes option price model. The following assumptions were made in estimating fair value: risk-free interest rate of 0.66%; volatility of 100.0%; expected life of 2.5 years; dividend yield of zero. The December PP Broker Warrants were valued at \$0.1798 per share, or \$2,000.

#### **Fronteer Financing**

The fair value of the Common Share purchase warrants issued to Fronteer pursuant to the Fronteer Subscription Agreement was estimated on their grant date using the Black-Scholes option price model. The following assumptions were made in estimating fair value: risk-free interest rate of 0.63%; volatility of 100.0%; expected life of 2.16 years; dividend yield of zero. The Common Share purchase warrants were valued at US \$0.079 per share, or US \$79,000.

#### **Toro Blanco Project**

The Toro Blanco Project in southwest Peru is the Company's top exploration priority for 2011. Although an early-stage prospect, the Toro Blanco Project hosts high-sulphidation, epithermal-style, Au mineralization and exhibits characteristics of well-known epithermal deposits. Rae-Wallace is currently planning and permitting an 8-hole, 3600-m drill program for later this year.

Reconnaissance-scale geological and alteration mapping, along with rock and soil sampling programs, led to exploration focus on a 2-km by 1.5-km zone where 293 rock samples yielded Au values up to 0.976 g/t, averaging

0.051 g/t. In 2010, Rae-Wallace collected an additional 176 rock samples from the same area and did a 19 line-km IP-Resistivity geophysical survey which produced a significant anomaly suggestive of a large mineral system.

Like most of Peru's epithermal Au camps (such as Yanacocha and Pierina), the Toro Blanco Property is underlain by Tertiary-aged volcanics and related coeval intrusions. Alteration assemblages (intermediate to advanced argillic alteration), elemental associations (Mo, Cu and Pb anomalies) and geophysical responses (chargeability anomalies associated with resistivity anomalies) also support the epithermal target model. Furthermore, the large IP anomaly is coincident with strong geochemical anomalies and provides the Company with compelling drill targets.

### **Liscay Project**

The Liscay Project in southwest Peru is the Company's second exploration priority for 2011. The Liscay Project is a large property (11,800 ha) that contains several veins indicative of low-sulphidation, epithermal-style, Au-Ag mineralization. In 2011, Rae-Wallace will map and sample (rock and soil) the known veins to delineate zones of interest and to identify targets for planned drilling later this year.

Recent work done at the Liscay Property includes reconnaissance-level geological and alteration mapping, soil-sampling surveys (190 samples), and an orientation-scale geophysical survey (13.5 line-km of IP-Resistivity). About 6-percent of 2,484 property-wide rock samples contained economically significant precious-metal concentrations (greater than 50 g/t Ag or 0.5 g/t Au).

A shallow orientation drilling program (1,500 m in 12 holes) focused primarily on the Liscay North Claims, returning intercepts as wide as 4.67 m, true-width (67.3 g/t Ag, 0.416 g/t Au) and as high-grade as 192 g/t Ag and 2.33 g/t Au (0.17 m true-width). All ten Liscay North Claim drill holes have precious metal intercepts corresponding to the down-dip extension of known mineralized zones on surface (to maximum depth of 60 m).

This reconnaissance-level exploration has demonstrated that there is a wide-spread distribution of quartz veins and silicified zones at the Liscay Property, identifying more than 9 km of vein strike length in at least five separate systems. Alteration assemblages (silicification-sericitization), elemental associations (Pb, Hg, Sb, Bi, Cu, Mo), and the geological context (Tertiary-age volcanic host rocks) support the epithermal target model at the Liscay Property.

### **Cayhua Project**

The Cayhua property is a 400-ha concession adjacent to Minera's Corihuarmi Au mine in southwest Peru, approximately 160km southeast of Lima. Minera has reported that the Corihuarmi open pit produced approximately 33,000 ounces of Au in 2009 and nearly 24,000 ounces in the first nine months of 2010, at cash operating costs of just US \$341 and US \$390 per ounce, respectively.

Minera has also reported that an updated ore reserve is expected to extend the Corihuarmi mine life into 2013. Geophysical surveys indicate that ore zones along the eastern margin of the Corihuarmi pit plunge onto Rae-Wallace's Cayhua property.

## **3. Overall Performance**

For the period ended March 31, 2011, the Company's cash position increased by US \$342,762 to US \$393,862 from US \$51,100 at June 30, 2010. This increase is due to the December Private Placement during the period amounting to net proceeds of US \$1,189,720 after commissions, legal fees and other costs of issuing the shares, offset by exploration expenditures and general and administrative costs.

The Company is engaged in the business of preliminary or early stage mineral exploration and mine development. The Company holds no interests in producing or commercial ore deposits. The Company has no production or other revenue. There is no operating history upon which investors may rely. Commercial development of any kind will only occur in the event that sufficient quantities of ore containing economic concentrations of Au or other mineral resources are discovered. If in the future a discovery is made, substantial financial resources will be required to establish ore reserves. Additional substantial financial resources will be required to develop mining and processing for any ore reserves that may be discovered. If the Company is unable to finance the establishment of ore reserves

or the development of mining and processing facilities it will be required to sell all or a portion of its interest in such property to one or more parties capable of financing such development.

## Results of Operations

Selected Annual Information:

	<b>Nine month period Ended March 31, 2011</b>	<b>Year Ended June 30, 2010</b>	<b>Year Ended June 30, 2009</b>	<b>Year Ended June 30, 2008</b>
	<b>US \$</b>	<b>US \$</b>	<b>US \$</b>	<b>US \$</b>
Loss before income taxes	851,994	806,652	503,708	328,442
Net Loss	851,994	806,652	503,708	328,442
Loss per weighted average share – basic and fully diluted	0.05	0.06	0.04	0.04
Total Assets	758,858	222,004	636,594	1,141,925

### Three months ended March 31, 2011

The Company incurred a net loss of US \$283,740 or US \$0.01 a share for the three months ended March 31, 2011, compared with a net loss of US \$170,246 or US \$0.01 a share for the same period ended March 31, 2010.

The Company incurred stock-based compensation expense for the three months ended March 31, 2011 of US \$23,720 compared to US \$nil for the same period in 2010. These costs are included in salaries and benefits and consulting fees. The increase is due to the Company's activity increasing and thus the decision of management to issue Stock Options to encourage future performance.

For the three months ended March 31, 2011, consulting fees increased by US \$32,582 to US \$101,716 from US \$69,134 in the same period in 2010. Part of this increase (US \$6,520) (2010 – US \$nil) relates to stock based compensation described in the paragraph above. Fees increased as the Company retained consultants for exploration work in Peru and corporate financing and investor relations advisors.

Professional fees decreased by US \$429 to \$14,617 during the three months ended March 31, 2011 compared to US \$15,046 in the same period in 2010. Professional fees remained consistent as the prior years' period.

Total office and general costs increased in the three months ended March 31, 2011, by US \$62,921 to US \$76,480 from US \$13,559 in 2010. The increase is attributable to insurance expenses and higher operating costs as the company has more staff and office space and prepares for the upcoming exploration phase. Primary reason for the increase is due to operations in Peru and office and general expenses to support the Peru operations.

Total salaries and benefits increased in the three months ended March 31, 2011, by US \$26,359 to US \$70,184 from US \$43,825 in 2010. Part of this increase (US \$17,200) (2010 – US \$nil) relates to stock based compensation as described above. The increase is attributable to individuals who were previously working as consultants being hired full time by the Company.

Total land payments and fees increased in the three months ended March 31, 2011, by US \$10,169 to US \$15,356 from US \$5,187 in 2010. The increase is attributable to the Company increasing its operations in the recently optioned properties in Peru.

### Nine month period ended March 31, 2011

The Company incurred a net loss of US \$851,994 or \$0.05 a share for the nine month period ended March 31, 2011, compared with a net loss of US \$439,232 or US \$0.03 a share for the same period ended March 31, 2010.

The Company incurred stock-based compensation expense for the nine month period ended March 31, 2011 of US \$62,000 compared to US \$nil for the same period in 2010. These costs are included in salaries and benefits and consulting fees. The increase is due to the Company's activity increasing and thus the decision of management to issue Stock Options to encourage future performance.

For the nine month period ended March 31, 2011, consulting fees increased by US \$88,607 to US \$267,911 from US \$179,304 in the same period in 2010. Part of this increase (US \$17,200) (2010 – US \$nil) relates to stock based compensation described in the paragraph above. Management and Consulting fees increased as the Company went from being fairly dormant during 2009 and 2008 to increasing operations and adding valuable members to the management team as the Company moves towards developing its newly acquired property in Peru and listing on the TSXV.

Professional fees increased by US \$28,122 to US \$70,317 during the nine month period ended March 31, 2011 compared to US \$42,195 in the same period in 2010. The increase is attributable to higher legal fees on general corporate matters as the Company looks to advance its current mineral properties and is working towards listing on the TSXV.

Total office and general costs increased in the nine month period ended March 31, 2011, by US \$165,440 to US \$203,430 from US \$37,990 in 2010. The increase is attributable to insurance expenses and higher operating costs as the company has more staff and office space and prepares for the upcoming exploration phase. Increase is also due to operations in Peru and office and general expenses to support the Peru operations.

Total salaries and benefits increased in the nine month period ended March 31, 2011, by US \$120,183 to US \$238,665 from US \$118,482 in 2010. The increase is attributable to individuals who were previously working as consultants being hired full time by the Company.

Total land payments and fees increased in the nine month period ended March 31, 2011, by US \$120,183 to US \$238,665 from US \$36,499 in 2010. The increase is attributable to the Company increasing its operations in the recently optioned properties in Peru.

#### 4. Summary of Quarterly Results

Selected financial information for the eight quarters as follows:

	<b>March 2011</b>	<b>31, December 2010</b>	<b>31, September 30, 2010</b>	<b>June 30, 2010</b>
	US \$	US \$	US \$	US \$
Total revenue	-	-	-	-
Net loss	283,740	349,414	218,840	367,420
Loss per share – basic and diluted	0.01	0.02	0.01	0.03
	<b>March 31, 2010</b>	<b>December 2009</b>	<b>31, September 30, 2009</b>	<b>June 30, 2009</b>
	US \$	US \$	US \$	US \$
Total revenue	-	-	-	-
Net loss	170,246	157,646	111,340	130,746
Loss per share– basic and diluted	0.01	0.01	0.01	0.01

#### Working Capital

As at March 31, 2011, the Company had net working capital of US \$451,684 compared to a working capital deficiency of US \$84,151 as at June 30, 2010.

A summary of the Company's cash position and changes in cash for the nine month period ended March 31, 2011 and 2010, are provided below:

	<b>Nine months ended March 31, 2011 (US \$)</b>	<b>Nine months ended March 31, 2010 (US \$)</b>
Cash used in operating activities - net	(881,955)	(298,011)
Cash provided by investing activities	134,997	(30,000)
Cash provided by financing activities	1,089,720	-
(Decrease) increase in cash	342,762	(328,011)
Cash, beginning of period	51,100	533,445
Cash, end of period	393,862	205,434

### Liquidity Outlook

Rae Wallace had cash of US \$393,862 available at March 31, 2011, an increase of US \$342,762 from the balance at June 30, 2010 of US \$51,100.

As noted above, the Company's working capital increased by US \$535,835 to a working capital of US \$451,684 from a working capital deficiency of US \$84,151 at June 30, 2010.

The Company believes that between its current cash balances and its future financing arrangements, it has the necessary funds available to meet its operating, investing and financing obligations and execute its current business plans.

### 5. Related-party Transactions

During the nine month period ended March 31, 2011, US \$45,000 (March 31, 2010 – US \$nil) was paid for services to the Chief Financial Officer.

### Disclosure of Outstanding Share Data as of July 8, 2011

	<b>Authorized</b>	<b>Outstanding</b>
Voting or equity securities issued and outstanding	Unlimited Common Shares	23,218,200 Common Shares
Securities convertible or exercisable into voting or equity shares		a) Options to acquire up to 2,460,000 Common Shares b) 7,753,000 warrants exercisable to acquire Common Shares of the Company.

### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

### Dividends

The Company has neither declared nor paid any dividends on its Common Shares. The Company intends to retain its earnings, if any, to finance growth and expand its operation and does not anticipate paying any dividends on its Common Shares in the foreseeable future.



### **Assessment of Recoverability of Mineral Property Costs**

The Company's recorded value of its exploration properties is based on historical costs that expect to be recovered in the future. The Company's recoverability evaluation is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale.

### **Assessment of Recoverability of Future Income Tax Assets**

In preparing the consolidated financial statements, the Company is required to estimate its income tax obligations. This process involves estimating the actual tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. The Company assesses, based on all available evidence, the likelihood that the future income tax assets will be recovered from future taxable income and, to the extent that recovery cannot be considered "more likely than not," a valuation allowance is established. If the valuation allowance is changed in a period, an expense or benefit must be included within the tax provision on the consolidated income statement.

### **Estimate of Stock Based Compensation and Associated Assumptions**

The Company recorded stock-based compensation based on an estimate of the fair value on the grant date of Stock Options issued. This accounting required estimates of interest rate, life of options, stock price volatility and the application of the Black-Scholes option pricing model. See Note 7 of the March 31, 2011 unaudited consolidated financial statements for a full disclosure.

### **Assessment of Recoverability of Receivables Including VAT**

The carrying amount of accounts receivables, and VAT are considered representative of their respective values. The Company assesses the likelihood that these receivables will be recovered and, to the extent that recovery is considered doubtful a provision for doubtful accounts is recorded.

### **Critical Accounting Policies**

*Basis of Presentation* – This summary of significant accounting policies is presented to assist in understanding the Financial Statements. The Financial Statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States and have been consistently applied in the preparation of the Financial Statements.

*Principles of Consolidation* – The consolidated financial statements include the accounts of the Company and the Subsidiary. All inter-company transactions and balances have been eliminated in these consolidated financial statements.

*Exploration Stage* – The Company has been in the exploration stage since February 2007. At that time, the Company began the process of acquiring new mining properties. The Company is primarily engaged in the acquisition, exploration and development of natural resource properties. Upon establishing the existence of proven reserves in one of its properties, the Company plans to actively prepare the site for extraction and enter a development stage.

*Mineral Properties, Exploration and Evaluation Costs* – Mineral property acquisition costs are capitalized. Exploration and evaluation expenditures for each property is expensed as incurred, unless such costs are expected to be recovered through successful development and exploration of the property or, alternatively, by its sale.

Although the Company has taken steps to verify title to its mining properties, these procedures do not guarantee the Company's title. Such mining properties may be subject to prior undetected agreements or transfers, and title may be affected by such defects.

*Going Concern* – As shown in the accompanying Financial Statements, the Company has no revenues and has incurred an accumulated deficit of US \$2,561,430 from inception through March 31, 2011. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Financial Statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and/or upon obtaining additional financing. Management plans to raise cash from public or private debt or equity financing on an as needed basis and in the longer term, to generate revenues from the acquisition, exploration and development of mineral interests, if found. Should the Company be unable to raise capital through any of these avenues, its business, financial position, results of operations and cash flow will likely be materially adversely impacted. The Financial Statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. An estimated US \$1,000,000 is believed necessary to continue operations and increase development through the next twelve months.

*Cash Equivalents* – For the purposes of the statement of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents in two financial institutions. Balances are insured by the Federal Deposit Insurance Corporation up to US \$250,000.

*Fair Value of Financial Instruments* – The Company's financial instruments include cash, accounts payable, and accrued expenses, and are carried at fair value.

*Estimates and Assumptions* – The preparation of the Financial Statements in accordance with accounting principles generally accepted in the United States requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions and may have a material effect on the Company's reported financial position and results of operations.

*Review of Carrying Value of Mining Properties for Impairment* – The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment the Company recognized impairment of mining properties US \$31,250 and US \$71,500 for the years ended June 30, 2010 and 2009 respectively.

*Provision for Taxes* – Income taxes are provided based upon the liability method of accounting. Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized. (see note 8)

*Revenue Recognition* – The Company will recognize revenue from sales when there is persuasive evidence that an arrangement exists, services have been rendered, the seller's price to the buyer is determinable, and collectability is reasonably assured.

*Stock-based compensation* – The Company follows the guidance of ASC 718 – Stock Compensation, which requires the measurement of the cost of employee services received in exchange for an award of an equity instrument on the grant-date fair value of the award.

Under the guidance of ASC 718, the Company is required to select a valuation technique or option-pricing model that meets the criteria as stated in the standard. At present, the Company is continuing to use the Black-Scholes

model, which requires the input of some subjective assumptions. These assumptions include estimating the length of time employees will retain their vested Stock Options before exercising them (“expected life”), the estimated volatility of the Company’s common stock price over the expected term (“volatility”), the risk-free interest rate and the dividend yield. Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation.

*Net Loss per Share* – Basic EPS is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through Stock Options, warrants, and other convertible securities.

At March 31, 2011 and 2010, the effect of the Company’s outstanding options and common stock equivalents would have been anti-dilutive. Accordingly, only basic EPS is presented.

Capital assets are recorded at cost less accumulated amortization. Amortization is computed using the straight-line method at the following annual rates:

Furniture and fixtures	5 years
Vehicles	5 years
Equipment	10 years

*Foreign Currency Translation* – The functional currency for the Company’s operations is the U.S. dollar. All monetary assets and liabilities where the functional currency is not the U.S. dollar are translated at current exchange rates at each balance sheet date and the resulting adjustments are included in a separate line item under other income (expense). Non monetary assets and liabilities are translated at historical exchange rates. Revenue and expense in foreign currencies are translated at the weighted-average exchange rates for the period.

*Subsequent events* – The Company has evaluated events and transactions for potential recognition or disclosure in its consolidated financial statements through July 8, 2011.

## **6. Financial Instruments and other Instruments**

*New accounting pronouncements* – In September 2006, the FASB ASC was updated to establish a framework for measuring fair value and expand disclosure about fair value measurements, but does not require any new fair value measurements. Effective October 1, 2008, the Company adopted the updated guidance for our financial assets and financial liabilities without a material effect on the Company’s consolidated financial statements. In February 2008, the FASB issued an update to the guidance which delayed the effective date for non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. Effective October 1, 2009, the Company adopted the updated guidance for non-financial assets and non-financial liabilities without a material effect on the Company’s consolidated financial statements.

In June 2009, the ASC guidance for consolidation accounting (Topic 810) was updated to require an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This statement is effective for fiscal years beginning after November 15, 2009. Accordingly, the Company will adopt this updated guidance in the 2011 fiscal year and is currently evaluating the impact of adopting this guidance on the consolidated financial statements.

In January 2010, the FASB issued ASC No. 2010-06, “*Fair Value Measurement and Disclosures (Topic 820): Improving Disclosure and Fair Value Measurements*”, which requires that purchases, sales, issuances, and settlements for Level 3 measurements be disclosed. ASC No. 2010-06 is effective for its fiscal quarter beginning after December 15, 2010. The adoption of ASC No. 2010-06 impacted disclosures only on the Company’s consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-11, “*Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives*”. ASU No. 2010-11 clarifies the type of embedded credit derivative that is

exempt from embedded derivative bifurcation requirements. Specifically, only one form of embedded credit derivative qualifies for the exemption – one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in ASU No. 2010-11 are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each entity's first fiscal quarter beginning after March 5, 2010. The adoption of ASC No. 2010-11 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASC No. 2010-09, "*Amendments to Certain Recognition and Disclosure Requirements*", which eliminates the requirement for SEC filers to disclose the date through which an entity has evaluated subsequent events. ASC No. 2010-09 is effective for its fiscal quarter beginning after December 15, 2010. The adoption of ASC No. 2010-06 will not have a material impact on the Company's consolidated financial statements.

## **7. Financial Instruments and other Instruments**

### **Net Fair Value of Financial Assets and Liabilities**

The Company's financial instruments comprise cash, accounts receivable, accounts payable and accrued liabilities.

Cash has been designated as held-for-trading, which are measured at fair value. Accounts receivable is classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and are classified as other financial liabilities, which are measured at amortized cost. The Company has no available for sale instruments.

### **Additional Capital**

The exploration activities of the Company may require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration and development of any of the Company's properties. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financings will be favorable to the Company. In addition, low commodity prices may affect the Company's ability to obtain financing.

### **Environmental and Permitting**

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations, among other things, mandate the maintenance of air and water quality standards, land reclamation, transportation, storage and disposal of hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors, and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

### **Acquisition**

The Company uses its best judgment to acquire mining properties for exploration and development in pursuit of such opportunities, the Company may fail to select appropriate acquisition candidates or negotiate acceptable agreements, including arrangements to finance the acquisitions and development, or integrate such opportunity and their personnel with the Company. The Company cannot assure that it can complete any acquisition that it pursues or is currently pursuing, on favorable terms, or that any acquisition completed will ultimately benefit the Company.

### **Competition**

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

adversely affect the Company's ability to acquire suitable producing properties or Prospectus for mineral exploration in the future.

## **Financial Risk Factors**

### Fair Value

The carrying amount of cash, accounts payable and accrued liabilities approximate fair value due to the relatively short term maturity of these financial instruments. The fair value of loans receivable, contingent liabilities and due to related parties cannot be determined with sufficient reliability as there are no fixed terms of repayment. The carrying value of loans and interest payable approximate the fair value based on discounted cash flows. Fair value represents the amount that would be exchanged in the arm's length transaction between willing parties and is best evidenced by a quoted market price if one exist.

### Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and loans payable. The Company has no significant concentration of credit risk arising from operations. Cash is held with reputable U.S. and Peruvian chartered banks which are closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments included in cash and loans receivable is minimal.

### Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at March 31, 2011, the Company had a cash balance of US \$393,862 (June 30, 2010 – US \$51,100) to settle current liabilities of US \$32,265 (June 30, 2010 – US \$145,137). A majority of creditors are currently accepting extended payment terms in light of the Company's current liquidity. The Company is seeking sources of additional capital to improve its liquidity position.

### Market Risks

#### **a) Interest Rate Risk**

The Company has cash balances and no variable interest bearing debt. The Company has fixed rates on its debt changes in interest rates could result in fair value risk on the Company's fixed rate debt.

#### **b) Foreign Currency Risk**

The Company's functional currency is the U.S. dollar. The Company operates in the United States and Peru, giving rise to market risks from changes in foreign exchange rates. The Company believes that the results of the operations and cash flows would be affected by a sudden change in foreign exchange rates, but would not impair or enhance its ability to pay its Peruvian soles denominated obligations.

### Other Risk Factors

#### **a) Property Risk**

The Company's significant mineral properties are described in Note 5 to the Financial Statements. Unless the Company acquires or develops additional material properties, the Company will be mainly dependent upon its existing property interests. If no additional major properties are acquired by the Company, any adverse development affecting the Company's properties would have a materially adverse effect on the Company's financial condition and results of operations.

### **b) Commodity Price Risk**

Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world market price of precious metals. These metal prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of these metals may be produced in the future, a profitable market will exist for them. As of March 31, 2011, the Company was not a producing entity. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of Stock Options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

### **Sensitivity Analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve month period:

- (i) The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts payable, due to related parties, and loans payable in Peruvian soles. As at March 31, 2011, had the U.S. dollar weakened/strengthened by 10% against the Peruvian Sole dollar with all other variables held constant, the Company's loss for the nine month period ended March 31, 2011 would have been approximately US \$1,000 higher/lower respectively as a result of foreign exchange losses/gains on translation of US dollar denominated financial instruments.

### **Internal Control over Financial Reporting**

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

During the most recent year end there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Proposed Transactions**

In the normal course of business, as an ongoing part of the exploration process, the Company investigates mineral properties which are submitted to the Board of Directors for consideration.

### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Corporation's President and CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the year covered by this management's discussion and analysis, management of the Corporation, with the participation of the President and CEO and the CFO, evaluated the effectiveness of the Corporation's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and CEO and the CFO have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Corporation's annual filings and interim filings (as such terms are defined under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Corporation, including the President and CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

## DESCRIPTION OF THE SECURITIES DISTRIBUTED

### Common Shares

The Company is authorized to issue one hundred million (100,000,000) Common Shares and ten million (10,000,000) Preferred Shares, issuable in series, of which 23,218,200 Common Shares and no Preferred Shares were issued and outstanding as of the date of this Prospectus. In addition, up to 21,280,000 Common Shares are reserved for issuance under the Offering, out of which 13,333,333 Unit Shares are reserved for issuance to the subscribers for Units, 80,000 Corporate Finance Shares are reserved for issuance to the Agent, 6,666,667 Warrant Shares are reserved for issuance upon the due exercise of the Warrants, and 1,200,000 Broker Warrant Shares are reserved for issuance upon the due exercise of the Broker Warrants and 2,460,000 Common Shares are reserved for issuance pursuant to the Company's Stock Option Plan. See "**Plan of Distribution**" and "**Options to Purchase Securities - Incentive Stock Option Plan**".

Holders of Common Shares are entitled to dividends, if as and when declared by the directors, to one vote per share at meetings of shareholders and to receive the remaining property of the Company in the event of the dissolution thereof.

### Warrants

The Warrants will be issued and governed pursuant to the Warrant Indenture to be entered into as of the Closing Date by the Company and Equity Financial and will be evidenced by a warrant certificate dated as of the Closing Date. Each whole Warrant will entitle the holder thereof to purchase one Warrant Share at an exercise price of \$0.40 per Warrant Share for a period of 24 months following the Closing Date, after which time the Warrants will become null and void. The Warrants will be transferable, subject to compliance with securities laws. The Warrant Indenture provides that no fractional Warrant Shares will be issued upon the exercise of Warrants and holders of Warrants will not have any rights as shareholders of the Company. In addition, the Warrant Indenture provides for and contains provisions designed to protect the holders of the Warrants against dilution upon the occurrence of certain events, including any subdivision, consolidation or reclassification of the Common Shares, the amalgamation, merger or other forms of business combination of the Company or a rights offering. The foregoing is a summary only of the terms of the Warrants and is qualified by the more detailed provisions of the Warrant Indenture. See "**Plan of Distribution**".

### Broker Warrants and Corporate Finance Shares

This Prospectus also qualifies the issue by the Company of the Broker Warrants and Corporate Finance Shares to the Agent. The Company will issue Broker Warrants to the Agent entitling the Agent to purchase that number of Broker Warrant Shares that is equal to 9% of the aggregate number of Units sold pursuant to the Offering. Each Broker Warrant will be exercisable into one Broker Warrant Share upon payment of \$0.30 per Broker Warrant Share at any time prior to the date which is 24 months from the Closing Date. See "**Plan of Distribution**".

## CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at July 8, 2011 and as at such date after giving effect to the Offering. The table should be read in conjunction with the Company's consolidated financial statements and notes thereto and "**Management's Discussion and Analysis**" contained elsewhere in this Prospectus.

<b>Description of Security</b>	<b>Outstanding as at July 8, 2011</b>	<b>Outstanding as at ●, 2011 after giving effect to the Minimum Offering</b>	<b>Outstanding as at ●, 2011 after giving effect to the Maximum Offering</b>
Common Shares	23,218,200	31,551,533	36,551,533
Warrants	7,753,000	11,919,667	14,419,666
Broker Warrants	13,000	763,000	1,213,000
Stock Options	2,460,000	2,460,000	2,460,000
<b>Total:</b>	<b>33,424,200</b>	<b>46,694,200</b>	<b>54,644,199</b>

### OPTIONS TO PURCHASE SECURITIES

The following table shows the number of options to purchase Common Shares of the Company issued and outstanding as of July 8, 2011:

<b>Class of Optionee (Number of Optionees in Class)</b>	<b>Number of Common Shares Under Option</b>	<b>Date of Grant</b>	<b>Exercise Price (US\$)</b>	<b>Expiry Date</b>	<b>Market Price at Date of Grant (US\$)</b>
Executive officers and past executive officers, as a group (3)	300,000	November 1, 2007	0.20	November 1, 2015	0.20
	50,000	January 13, 2010	0.20	January 13, 2015	0.20
	100,000	February 10, 2010	0.20	February 10, 2015	0.20
	650,000	October 25, 2010	0.25	October 25, 2015	0.25
Directors and past directors who are not also executive officers, as a group (3)	900,000	November 1, 2007	0.20	November 1, 2015	0.20
	200,000	January 13, 2010	0.20	January 13, 2015	0.20
	150,000	October 25, 2010	0.25	October 25, 2015	0.25
Consultants, as a group (4)	100,000	January 13, 2010	0.20	January 13, 2015	0.20
	10,000	October 25, 2010	0.25	October 25, 2015	0.20

### PRIOR SALES

During the preceding twelve months, the Company issued the following securities as set out below:

<b>Date of Issuance or Sale</b>	<b>Aggregate Number of Securities Issued</b>	<b>Price per Security</b>	<b>Total Gross Consideration</b>
July 9, 2010.....	1,000,000 <sup>(1)</sup>	US\$0.25	US\$250,000
July 23, 2010.....	2,000,000 <sup>(2)</sup>	US\$0.25	US\$500,000
December 7, 2010.....	1,698,000 <sup>(3)</sup>	\$0.25	\$424,500



<b>Date of Issuance or Sale</b>	<b>Aggregate Number of Securities Issued</b>	<b>Price per Security</b>	<b>Total Gross Consideration</b>
December 30, 2010.....	1,195,000 <sup>(3)</sup> 13,000 <sup>(4)</sup>	\$0.25 \$0.25	\$298,750 \$3,250
May 20, 2011.....	2,970,000 <sup>(5)</sup>	\$0.25	\$742,500
June 3, 2011.....	370,000 <sup>(5)</sup>	\$0.25	\$92,500

Notes:

- (1) Units consisting of one Common Share and one Common Share purchase warrant. Issued pursuant to the Geologix Option Agreement.
- (2) Units consisting of one Common Share and one Common Share purchase warrant. Issued pursuant to the Fronteer Subscription Agreement
- (3) December PP Units issued pursuant to the December 2010 Private Placement.
- (4) December PP Broker Warrants issued pursuant to the December Private Placement.
- (5) May PP Units issued pursuant to the May 2011 Private Placement.

See “**Description of the Business**” for further details.

#### **ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER**

##### **Escrowed Securities**

NP 46-201 requires that securities held by a “principal” of an issuer be held in escrow. A “principal” of an issuer is: (i) a person who acted as a promoter of the issuer; (ii) a director or senior officer of the issuer; (iii) a person holding more than 20% of the securities of the issuer both immediately before and immediately after the Offering; and (iv) a person carrying more than 10% of the securities who also has the right to appoint one or more directors or senior officers of the issuer. In addition, the TSXV may impose hold periods which apply where seed shares have been issued to non-principals prior to an initial public offering. The “**Escrowed Shareholders**” for the purposes of this Prospectus are the principals.

In accordance with NP 46-201 and pursuant to the Escrow Agreement to be entered into among the Escrowed Shareholders, the Company and Equity Financial, a total of 1,330,000 Common Shares, 400,000 warrants and 1,900,000 Stock Options will be deposited into escrow with Equity as escrow agent on closing of the Offering. Pursuant to the Escrow Agreement, the following table discloses securities of the Corporation which will be held in escrow:

<b>Designation of Class</b>	<b>Number of Escrowed Securities</b>	<b>Percentage of Class upon Completion of Minimum Offering</b>	<b>Percentage of Class upon Completion of Maximum Offering</b>
Common Shares	1,330,000	4.2%	3.6%
Warrants	400,000	3.4%	2.8%
Stock Options	1,900,000	77.2%	77.2%

Escrow restricts the ability of certain holders to deal with their escrowed securities while they are in escrow. The Escrow Agreement sets out these restrictions and provides that, except to the extent permitted thereunder, the principals cannot sell, transfer, assign, mortgage, enter into a derivative transaction concerning, or otherwise deal in any way with their Escrowed Securities or the related share certificates or other evidence of the Escrowed Securities. A private company, controlled by one or more principals, that holds Escrowed Securities, may not participate in a

transaction that results in a change of its control or a change in the economic exposure of the applicable principals to the risks of holding Escrowed Securities.

The Escrowed Securities shall not be released unless listing of the Common Shares is completed by the Company. If, on the Listing Date, the Company is classified as an “established issuer” for the purposes of NP 46-201, the following automatic timed releases will apply to the securities held by the Escrowed Shareholders:

On the Listing Date	1/4 of the Escrowed Securities
6 months after the Listing Date	1/3 of the remaining Escrowed Securities
12 months after the Listing Date	1/2 of the remaining Escrowed Securities
18 months after the Listing Date	the remaining Escrowed Securities

If, on the date Listing Date, the Company is classified as an “emerging issuer” for the purposes of NP 46-201, the following automatic timed releases will apply to the securities held by the Escrowed Shareholders:

On the Listing Date	1/10 of the Escrowed Securities
6 months after the Listing Date	1/6 of the remaining Escrowed Securities
12 months after the Listing Date	1/5 of the remaining Escrowed Securities
18 months after the Listing Date	1/4 of the remaining Escrowed Securities
24 months after the Listing Date	1/3 of the remaining Escrowed Securities
30 months after the Listing Date	1/2 of the remaining Escrowed Securities
36 months after the Listing Date	the remaining Escrowed Securities

In addition, the TSXV may approve an accelerated release schedule if after the Listing Date the Company, meets “Tier 1 Company” listing requirements or establishes itself as an “established company” as described in NP 46-201.

Each of the directors and officers of the Company and certain shareholders provided the Agent with an undertaking not to sell securities of the Company for a period of • days from the issuance of the final receipt for this Prospectus. See “**Plan of Distribution – Standstill Arrangement**”.

## PRINCIPAL SECURITYHOLDERS

As at the date of this Prospectus, to the knowledge of the directors and officers of the Company, no person beneficially owns, directly or indirectly, or exercises control or direction over Common Shares carrying more than 10% of the voting rights attaching to all outstanding Common Shares, except as follows:

Name of Shareholder	Number of Common Shares beneficially owned directly or indirectly	Percentage of Common Shares held prior to completion of the Offering	Type of Ownership	Number and Percentage of Common Shares held upon completion of the Minimum Offering	Number and Percentage of Common Shares held upon completion of the Maximum Offering
Timberline Resources Corp. <sup>(1)</sup>	2,980,000	12.8%	Beneficial	2,980,000 9.4%	2,980,000 8.2%

*Note:*

(1) Timberline Resources Corp. is a public company currently trading on the TSXV.

## DIRECTORS AND OFFICERS

The following table sets out, for each of the Company’s directors and executive officers, the individual’s name, municipality of residence, position(s) with the Company, if a director, the month and year in which such individual became a director, and their respective security holdings upon completion of the Offering. The directors of the

Company are elected annually and the term of office of each director will expire at the time of the next annual meeting of shareholders of the Company or until his or her successor is elected or appointed.

<b>Name and Municipality of Residence and Date first became a Director/Officer</b>	<b>Position with the Company</b>	<b>Security Holdings Beneficially Owned or Controlled or Directed, Directly or Indirectly, as at July 8, 2011</b>
George Cole..... Reno, Nevada, USA February 2010	President, Chief Executive Officer, Director	88,000 Common Shares 80,000 Warrants 600,000 Stock Options
Stephen Friberg..... Reno, Nevada, USA December 2007	VP Exploration	325,000 Common Shares 425,000 Stock Options
Andres Tinajero..... Richmond Hill, Ontario, Canada May 2010	Chief Financial Officer	22,000 Common Shares 20,000 Warrants 75,000 Stock Options
Chris Irwin..... Toronto, Ontario, Canada January 2011	Corporate Secretary	210,000 Common Shares 200,000 Warrants
Randal Hardy <sup>(1)</sup> ..... Hayden Lake, Idaho, USA October 2007	Director	100,000 Common Shares 400,000 Stock Options
Gary Nordin <sup>(1)</sup> ..... Vancouver, British Columbia, Canada October 2007	Director	475,000 Common Shares 400,000 Stock Options
Bryan Morris <sup>(1)</sup> ..... Vancouver, British Columbia, Canada January 2011	Director	Nil
Edward Thompson..... Toronto, Ontario, Canada January 2011	Director	110,000 Common Shares 100,000 Warrants

*Note:*

(1) Member of the Audit Committee

As of the date of this Prospectus, the directors and officers of the Company, as a group, beneficially own, directly or indirectly, or exercise control or direction over, 1,200,000 Common Shares, representing 6.1% of the issued and outstanding Common Shares. After completion of the Offering, the directors and officers, as a group, are expected to own or exercise control or direction over 4.3% (under the Minimum Offering) or 3.6% (under the Maximum Offering) of the then issued and outstanding Common Shares.

Biographical information for each member of the Company's management is set forth below. No member of the Company's management is currently subject to a non-competition agreement with the Company. Mr. Tinajero is party to the CA with the Company dated May 1, 2010 which provides for non-disclosure of confidential information of the Company. No other member of the Company's management is currently subject to a non-disclosure agreement with the Company.

*George Cole, President, Chief Executive Officer and Director*

Mr. Cole (68) has over 30 years of exploration, property evaluation, business development and corporate management experience in the United States and internationally. George retired from the Cominco (TeckCominco) organization in 2001 as Vice-President of Exploration for Cominco American where he was responsible for all US exploration and business development activity. He helped to more than double the resource base on the Red Dog Zinc Mine property in NW Alaska. Since 2002, George has been a Director, and held various senior executive positions with a number of junior mining-exploration companies. Mr. Cole's principal occupation is his current position with the Company.

*Andres Tinajero, Chief Financial Officer*

Mr. Tinajero (37) has over 16 years of business experience, having supported a broad range of industries, including not for profit, manufacturing, mining, and retail; establishing accounting and business skills set, transitioning into the public sector serving in leadership roles for small and medium sized companies in extractive industries. During this same period, he has served as Controller at Lafarge Canada Inc. and Chief Financial Officer of a number of start-ups and medium sized public companies across Canada. He holds degrees in Business Administration and an Masters of Business Administration, and is also a Member of the Canadian Institute of Certified Management Accountants, and a member of the Certified Practicing Accountants of Australia. Mr. Tinajero's principal occupations are VP Finance and Chief Financial Officer for Trelawney Mining and Explorations Inc., Chief Financial Officer of Vena Resources Inc. and his current position with the Company. Mr. Tinajero will devote approximately 30% of his time to his position with the Company.

*Steve Friberg, VP Exploration*

Mr. Friberg (68) has over 42 years of experience in the mining and exploration industry. He has been working the past twenty seven years as an economic exploration consulting geologist to the industry which spans both major and junior companies. Mr. Friberg started his career in Nevada, shortly after the Carlin gold mine was discovered and, since then has expanded his managerial and technical experience in most countries in North, Central and South America plus China. Mr. Friberg holds a Bachelor of Science degree from the Mackay School of Mines, University of Nevada. Mr. Friberg's principal occupation is his current position with the Company.

*Chris Irwin, Secretary*

Mr. Irwin (42) is Corporate Secretary of the Company and has held this position since January 2011. Mr. Irwin is a partner with Irwin Lowy LLP, a law firm, and has held this position since January 2010. Prior to such time, he was a principal with Irwin Professional Corporation, a law firm, and held this position since 2006. Prior to such time from 2004 to 2006, he was an associate with Wildeboer Dellelce LLP. Mr. Irwin is a director and/or officer of several public companies. He holds a Masters of Law (Osgoode), a Bachelor of Laws (University of New Brunswick) and a Bachelor of Arts (Bishop's University). Mr. Irwin will devote approximately 10% of his time to his position with the Company.

*Randal Hardy, Director*

Mr. Hardy (50) currently serves as Chief Executive Officer of Timberline Resources Corp. Prior thereto, he served as President, and as Chief Financial Officer, of Hunt Mountain Resources, a public exploration company. Prior to that, he was President and Chief Executive Officer of Sunshine Minting, Inc., a precious metals custom minting and manufacturing firm. He has also served as Treasurer of the New York Stock Exchange-listed Sunshine Mining and Refining Company. Mr. Hardy has a Business Administration degree from Boise State University and is a Certified Management Accountant and Certified Cash Manager. Mr. Hardy will devote approximately 10% of his time to his position with the Company.

*Gary Nordin, Director*

Mr. Nordin (63) has 35 years of experience in the mining and exploration industry. He is currently Vice-President of Exploration and a Director of Portal Resources Ltd. and a Director of Canasil Resources Inc. Mr. Nordin has previously served on audit committees of several listed junior exploration companies and he currently serves on the audit committee of Portal Resources Ltd. and Canasil Resources Inc. Mr. Nordin has an Honours Bachelor of Science in Geology from the University of Alberta. Previously, Mr. Nordin was a founding member and a Director of Eldorado Gold Corporation where he was responsible for project evaluation, exploration, and development. He was also a founding member and a Director of Bema Gold Corporation. Mr. Nordin was also formerly a Director of Nevada Pacific Gold Ltd. Mr. Nordin will devote approximately 10% of his time to his position with the Company.

*Bryan Morris, Director*

Mr Morris (73) has more than 45 years' experience in the mining and exploration industry. He worked for Cominco Ltd., Cominco Resources and Teck Cominco from 1977- 2003, finishing his career as Vice President, Business Development. His earlier positions within the Cominco organization included Group Controller, Assistant Controller and Assistant Treasurer of Cominco Ltd and Chief Financial Officer and Director of Cominco Resources. Prior to his Cominco experience he spent 11 years in Peru with Cerro de Pasco Corporation and Centromin and was Director of Accounting at the time of his exit. He has served on the boards of AIM-listed ZincOx and Lima-listed El Brocal and currently sits on the boards of Andean American Au, Sinchao Metals, Inca Pacific Resources and Zazu Metals. Mr Morris is United Kingdom educated in accounting-finance, is a F.C.M.A. (UK) and is fluent in Spanish. Since his retirement from TeckCominco in 2003 he has served on, and in some cases chaired, the audit committees of several listed junior exploration companies. Mr. Morris will devote approximately 10% of his time to his position with the Company.

*Edward Thompson, Director*

Mr. Thompson (74) is currently president of his own consulting firm and a director of five resource companies. Most recently, he was Chairman of Chariot Resources which was acquired by a Chinese group for its large Cu project in Peru, and a director of Freewest Resources, which was acquired by Cliffs Natural Resources following Freewest's world-class chromite discoveries in northern Ontario. During his 50 year professional career, he has held senior exploration and management positions with Teck Corporation, Lacana Mining Corporation (President) and the Anglo American-Minorco Group (President). Over the last 20 years he has served as chairman, president or director of more than 20 resource companies. Mr. Thompson holds a Bachelor of Science degree in Engineering Geology and a Masters of Science in Economic Geology from the University of Toronto. He is a member of the Professional Engineers of Ontario, a past president of the Prospectors and Developers Association of Canada (and still chairs their Awards Committee), and a director and treasurer of the Canadian Mining Hall of Fame. Mr. Thompson will devote approximately 10% of his time to his position with the Company.

**Penalties or Sanctions**

No director or executive officer of the Company and no shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

**Corporate Cease Trade Orders or Bankruptcies**

Except as disclosed below, none of the Company's directors or executive officers is, as at the date of this Prospectus, or was within 10 years before the date of this Prospectus, a director or chief executive officer or chief financial officer of any company (including the Company) that was the subject of an order (as defined in Form 51-102F5 under National Instrument 51-102) that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer, or chief financial officer, and which

resulted from an event that occurred while that person was acting in the capacity as a director, chief executive officer, or chief financial officer

- Bryan Morris was a director of MRL. On April 19, 2005 MRL was cease-traded as a result of the failure to file its consolidated financial statements for the year ended December 31, 2004 on time. This was due primarily to the inability to obtain financial results from MRL's Peruvian subsidiaries, which had ceased active operations and closed their Peruvian offices as of July 1, 2004. On July 21, 2005, the British Columbia, Alberta and Manitoba Securities Commissions revoked the cease trade order. The cease trade order was subsequently revoked by the Ontario Securities Commission on August 17, 2005.
- Bryan Morris is a director of AAG. AAG was subject to a cease trade order issued by the BCSC on August 2, 2007 due to inadequacies in a NI 43-101 technical report. The cease trade order was subsequently revoked by the BCSC on October 22, 2007 following AAG's filing of an amended report. Mr Morris was a director of AAG during this period.
- Edward Thompson was formerly a Director of WME. WME was subject to a cease trade order issued by the Ontario Securities Commission, the British Columbia Securities Commission and by the Alberta Securities Commission on June 26, 2003, July 10, 2003 and September 26, 2003 respectively for failure to file financial statements.
- Chris Irwin is the Secretary of Canada Lithium Corp., formerly, Black Pearl Minerals Consolidated Inc. which was subject to a cease trade order resulting from a failure to file financial statements in July 2002. The cease trade lasted for more than 30 days.
- Chris Irwin was formerly a Director and Secretary of SFMC which was subject to a management cease trade order resulting from a failure to file financial statements. The cease trade was ordered on October 2004 until February 2005; and a management cease trade order resulting from a failure to file financial statements. The cease trade was ordered on November 2, 2005 and has not been rescinded. Chris resigned as a director and officer of SFMC on November 22, 2005.
- Chris Irwin is currently Director, President and Secretary of Brighter Minds Media Inc., which is subject to cease trade orders resulting from failure to file financial statements dated May 8, 2009, May 11, 2009, May 13, 2009, May 20, 2009 and August 18, 2009.
- Chris Irwin is currently a Director of Airesurf Network Holdings Inc., which was subject to a management cease trade order resulting from a failure to file financial statements. The cease trade was ordered in May 2009 and rescinded in June 2009.

Except as disclosed below, none of the directors, executive officers or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company is, at the date hereof, or has been within 10 years before the date of this Prospectus, a director or executive officer of any company (including the Company) that while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or has, within the 10 years before this Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such director, executive officer or shareholder.

- Mr. Thompson was formerly a Director of WME. Following a cease trade order issued on June 25, 2003, WME subsequently filed for voluntary bankruptcy on July 3, 2003.
- Mr. Irwin is a Director of Airesurf Network Holdings Inc., which filed a proposal under Section 50 of the *Bankruptcy and Insolvency Act* (Canada) with the Ontario superior Court of Justice in Bankruptcy on September 20, 2010.

## **Conflicts of Interest**

The transactions in which directors, senior officers, promoters or principal holders of the Company's securities have had an interest in are described under the headings "**Interest of Management and Others in Material Transactions**", "**Options to Purchase Securities**" and "**Executive Compensation**". There are no material transactions with or involving the Company and any director, senior officer, promoter or principal holder of securities of the Company. Certain of the Company's directors and officers also serve as directors and/or officers of companies which may enter into contracts with the Company in the future. In the event that this occurs, a conflict of interest will exist. Directors in a conflict of interest position are required to disclose such conflicts to the Company.

## **EXECUTIVE COMPENSATION**

The Company was not a reporting issuer at any time during its most recently completed financial year. What follows is a discussion of all significant elements of the compensation to be awarded to, earned by, paid to, or payable to each of the Company's Named Executive Officers (as defined below) once it becomes a reporting issuer, to the extent this compensation has been determined. The description contained herein represents the expectations of management with respect to the Company's executive compensation program following the completion of the Offering. However, it is anticipated that following the closing of the Offering, the Board of the Company will meet with management to review the Company's executive compensation program and, if deemed appropriate, will make changes to the program in light of the Company's status as a public company and other relevant factors.

### **Named Executive Officers**

For the purposes of this Prospectus, an NEO of the Company means each of the following individuals:

- (a) a CEO of the Company;
- (b) a CFO of the Company;
- (c) each of the Company's three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than \$150,000, as determined in accordance with subsection 1.3(6) of Form 51-102F6, for that financial year; and
- (d) each individual who would be an NEO under paragraph (c) above but for the fact that the individual was neither an executive officer of the Company, nor acting in a similar capacity, at the end of that financial year.

The Company currently has the following four NEOs: George Cole, President, CEO and Director, Andres Tinajero, CFO, Stephen Friberg, President and CEO (former), and Craig Crowell, CFO (former).

### **Compensation Discussion and Analysis**

The Board is responsible for ensuring that the Company has in place an appropriate plan for executive compensation. The Board ensures that total compensation paid to all NEOs is fair and reasonable and is consistent with the Company's compensation philosophy.

Compensation plays an important role in achieving short and long-term business objectives that ultimately drive business success. The Company's compensation philosophy is to foster entrepreneurship at all levels of the organization through, among other things, the granting of Stock Options, a significant component of executive compensation. This approach is based on the assumption that the performance of the Common Share price over the long term is an important indicator of long term performance.

The Company's compensation philosophy is based on the following fundamental principles:

1. *Compensation programs align with shareholder interests* – the Company aligns the goals of executives with maximizing long term shareholder value;
2. *Performance sensitive* – compensation for executive officers should be linked to operating and market performance of the Company and fluctuate with the performance; and
3. *Offer market competitive compensation to attract and retain talent* – the compensation program should provide market competitive pay in terms of value and structure in order to retain existing employees who are performing according to their objectives and to attract new individuals of the highest calibre.

The objectives of the compensation program in compensating all NEOs were developed based on the above-mentioned compensation philosophy and are as follows:

- to attract and retain highly qualified executive officers;
- to align the interests of executive officers with shareholders' interests and with the execution of the Company business strategy;
- to evaluate executive performance on the basis of key measurements that correlate to long-term shareholder value; and
- to tie compensation directly to those measurements and rewards based on achieving and exceeding predetermined objectives.

### **Competitive Compensation**

Aggregate compensation for each NEO is designed to be competitive. The Board reviews compensation practices of similarly situated companies in determining compensation policy. Although the Board reviews each element of compensation for market competitiveness, and it may weigh a particular element more heavily based on the NEO's role within the Company, it is primarily focused on remaining competitive in the market with respect to total compensation.

The Board is expected to review data related to compensation levels and programs of various companies that are similar in size to the Company and operate within the mining exploration and development industry, prior to making its decisions. No such review has taken place to date.

The purpose of this process is to:

- understand the competitiveness of current pay levels for each executive position relative to companies with similar revenues and business characteristics;
- identify and understand any gaps that may exist between actual compensation levels and market compensation levels; and
- establish as a basis for developing salary adjustments and short-term and long-term incentive awards for the Board's approval.

### **Aligning the Interests of the NEOs with the Interests of the Company's Shareholders**

The Company believes that transparent, objective and easily verified corporate goals, combined with individual performance goals, play an important role in creating and maintaining an effective compensation strategy for the NEOs. The Company's objective is to establish benchmarks and targets for its NEOs which, if achieved, will enhance shareholder value.



A combination of fixed and variable compensation is used to motivate executives to achieve overall corporate goals. For the 2010 financial year, the basic components of executive officer compensation program were:

- fixed salary; and
- option based compensation.

Fixed salary comprises a portion of the total cash-based compensation; however, going forward, annual incentives and option based compensation are expected to represent compensation that is “at risk” and thus may or may not be paid to the respective executive officer depending on whether the executive officer is able to meet or exceed his or her applicable performance targets. To date, no specific formulae have been developed to assign a specific weighting to each of these components. Instead, it is expected that the Board will consider each performance target and the Company’s performance and assigns compensation based on this assessment.

### **Base Salary**

The Board approves the salary ranges for the NEOs. The base salary review for each NEO is based on assessment of factors such as current competitive market conditions, compensation levels within the peer group and particular skills, such as leadership ability and management effectiveness, experience, responsibility and proven or expected performance of the particular individual. Comparative data for the Company’s peer group is also accumulated from a number of external sources including independent consultants. The Company’s policy for determining salary for executive officers is consistent with the administration of salaries for all other employees.

### **Annual Incentives**

The Company, in its discretion, may award annual incentives in order to motivate executives to achieve short-term corporate goals. The Board approves annual incentives.

The success of NEOs in achieving their individual objectives and their contribution to the Company in reaching its overall goals are factors in the determination of their annual bonus. The determination of annual bonus is subjective, however, it is expected that the Board will assess each NEO's performance on the basis of his respective contribution to the achievement of corporate objectives, as well as to needs of the Company that arise on a day to day basis. This assessment is expected to be used by the Board with respect to the determination of annual bonuses for the NEOs.

### **Compensation and Measurements of Performance**

The Board is expected to approve targeted amounts of annual incentives for each NEO at the beginning of each financial year. The targeted amounts are determined by the Board based on a number of factors, including comparable compensation of similar companies.

Achieving predetermined individual and/or corporate targets and objectives, as well as general performance in day to day corporate activities, will trigger the award of a bonus payment to the NEO. The NEO will receive a partial or full incentive payment depending on the number of the predetermined targets met and the Board’s assessment of overall performance. The determination as to whether a target has been met is ultimately made by the Board and the Board reserves the right to make positive or negative adjustments to any bonus payment if they consider them to be appropriate.

### **Option Based Awards (Equity Incentive Plan)**

The Company currently has no long-term incentive plans, other than Stock Options granted from time to time by the Board under the provisions of the Company’s Stock Option Plan. The Board approved the Stock Option Plan on June 30, 2011. The purpose of the Stock Option Plan is to encourage common share ownership in the Company by directors, officers, employees and consultants of the Company and its affiliates and other designated persons. The Board believes that the plan aligns the interests of the NEOs with shareholders by linking a component of executive

compensation to the longer term performance of the Company's Common Shares. Options may be granted under the Stock Option Plan only to directors, officers, employees and consultants of the Company and its subsidiaries and other designated persons as designated from time to time by the Board. The number of shares which may be reserved for issuance under the Stock Option Plan is limited to 10% of the issued and outstanding shares of the Company as at the date of the grant of options. Any shares subject to an option which is exercised, or for any reason is cancelled or terminated prior to exercise will be available for a subsequent grant under the Stock Option Plan. The option price of any common shares cannot be less than the market price of the Common Shares. Options granted under the Stock Option Plan may be exercised during a period not exceeding 10 years, subject to earlier termination upon the termination of the optionee's employment, upon the optionee ceasing to be an employee, officer, director or consultant of the Company or any of its subsidiaries or ceasing to have a designated relationship with the Company, as applicable, or upon the optionee retiring, becoming permanently disabled or dying. The options are non-transferable. The Stock Option Plan contains provisions for adjustment in the number of shares issuable thereunder in the event of a subdivision, consolidation, reclassification or change of the common shares, a merger or other relevant changes in the Company's capitalization. Subject to shareholder approval in certain circumstances, the Board may from time to time amend or revise the terms of the Stock Option Plan or may terminate the Stock Option Plan at any time. The Stock Option Plan does not contain any provision for financial assistance by the Company in respect of options granted under the Stock Option Plan. In addition to previous option grants, the Board assesses each NEO performance on the basis of his respective contribution to the achievement of any corporate objectives, as well as to needs of the Company that arise on a day to day basis. This assessment is used by the Board with respect to the determination of option grants for the NEO.

### Summary Compensation Table

The following table contains a summary of the compensation paid to the NEOs of the Company during the three most recently completed financial years.

NEO name and principal position	Year	Salary (US\$)	Share-based awards (US\$)	Option-based awards <sup>(1)</sup> (US\$)	Non-equity incentive plan compensation (US\$)	Pension value	All other compensation (US\$)	Total compensation (US\$)
George Cole <sup>(2)</sup> ..... CEO	2010	26,800	Nil	15,000	Nil	Nil	Nil	41,800
Stephen Friberg <sup>(3)</sup> ..... CEO	2010	78,750	Nil	1,250	Nil	Nil	Nil	80,000
	2009	135,000	Nil	1,250	Nil	Nil	Nil	136,250
	2008	135,000	Nil	1,250	Nil	Nil	Nil	136,250
Andres Tinajero <sup>(4)</sup> ..... CFO	2010	14,496	Nil	Nil	Nil	Nil	Nil	14,496
Craig Crowell <sup>(5)</sup> ..... CFO	2010	Nil	2,500	Nil	Nil	Nil	Nil	2,500
	2009	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2008	Nil	Nil	Nil	Nil	Nil	Nil	Nil

*Note:*

- (1) The fair value of the options granted was estimated on their grant date using the Black-Scholes Option Price Model.
- (2) Mr. Cole was appointed President and CEO of the Company on February 10, 2010.
- (3) Mr. Friberg was appointed President and CEO of the Company on December 1, 2007 and was replaced as President and CEO on February 10, 2010 by Mr. Cole.
- (4) Mr. Tinajero was appointed as CFO of the Company on May 1, 2010.
- (5) Mr. Crowell was appointed CFO of the Company on December 1, 2007 and was replaced by Mr. Tinajero on May 1, 2010.

## Outstanding Option-Based Awards to NEOs

The following table sets out for each NEO, the incentive Stock Options (option-based awards) awards outstanding as at June 30, 2010.

Name	Option-based awards			Share-based awards		
	Number of unexercised securities underlying options	Option exercise price (US\$)	Option expiration date	Value of unexercised in-the-money options <sup>(1)</sup> (US\$)	Number of shares or units of shares that have not vested	Market or payout value of share-based awards that have not vested
George Cole..... CEO, Director	100,000	0.20	February 10, 2015	10,000	Nil	Nil
Stephen Friberg..... CEO	300,000 50,000	0.20 0.20	November 1, 2015 January 13, 2015	30,000 5,000	Nil	Nil
Andres Tinajero..... CFO	Nil	N/A	N/A	N/A	Nil	Nil
Craig Crowell..... CFO	Nil	N/A	N/A	N/A	Nil	Nil

Note:

(1) Based on an estimated Common Share value of US\$0.30 per Common Share.

## Employment Contracts and Change of Control Provisions

Under the terms of the Tinajero CA, Mr. Tinajero agreed to provide consulting services to the Company, including acting as CFO. Pursuant to the Tinajero CA, the Company agreed to pay Mr. Tinajero fees of US\$5,000 per month for consulting services. The Tinajero CA also provides for the issuance of incentive Stock Options as the Board sees fit. In the event the Company terminates the Tinajero CA, Mr. Tinajero is entitled to a lump sum payment representing three months compensation. In the event Mr. Tinajero is terminated due to a “change of control”, he will be entitled to a lump sum severance payment equivalent to 12 month’s compensation. Pursuant to the Tinajero CA, a “change of control” means a take-over, arrangement, amalgamation, merger or other form of corporate combination, restructuring, transaction or reorganization such that the Company is controlled, whether legally or in fact, by any person or group of persons acting jointly and in concert who acquire or hold more than 20% of the issued and outstanding Common Shares.

Under the terms of the Cole EA, Mr. Cole agreed to act as President and CEO of the Company and to be primarily responsible for all aspects of the Company’s business. The Company agreed to pay Mr. Cole a salary of US\$130,000 per year, which salary shall be payable in equal bi-monthly payments. The Cole EA also provides for the issuance of incentive Stock Options as the Board sees fit and the provision of benefits in the event the Company adopts a fringe benefit package for its employees. In October 2010, the Company reduced Mr. Cole’s salary to US\$7,000 per month. The Cole EA provides that Mr. Cole’s employment shall be terminated upon the occurrence of the following events: *Death of Employee* – the Cole EA terminates without notice and the Company shall pay the monthly base salary of Mr. Cole to Mr. Cole’s estate for one year; *Voluntary Resignation* – Mr. Cole must provide not less than 1 month’s written notice of any intention to resign; *Termination of Employment for Manifest Cause* – the Company may terminate Mr. Cole’s employment for manifest cause without notice; *Termination of Employment other than for Manifest Cause* – the Company may terminate the employment of Mr. Cole without manifest cause upon one month’s written notice; and *Termination upon Takeover, Merger or Acquisition* – should Mr. Cole

terminate the Cole EA for good reason upon the occurrence of a takeover, merger or acquisition, Mr. Cole will be paid one year's salary by the Company.

Under the terms of the Friberg EA, Mr. Friberg agreed to act as President and CEO of the Company and to be primarily responsible for all aspects of the Company's business. The Company agreed to pay Mr. Friberg a salary of US\$130,000 per year, which salary was paid in equal bi-monthly payments. The Friberg EA also provided for the issuance of 300,000 Stock Options exercisable at US\$0.20 per share and the provision of health insurance benefits for Mr. Friberg and his spouse as long as he is employed by the Company. Upon Mr. Cole's appointment as President and CEO, Mr. Friberg has continued his employment with the Company as VP Exploration upon the terms of the Friberg EA. The Friberg EA provides that Mr. Friberg's employment shall be terminated upon the occurrence of the following events: *Death of Employee* – the Friberg EA terminates without notice and the Company shall pay the monthly base salary of Mr. Friberg to Mr. Friberg's estate for one year; *Voluntary Resignation* – Mr. Friberg must provide not less than 1 month's written notice of any intention to resign; *Termination of Employment for Manifest Cause* – the Company may terminate Mr. Friberg's employment for manifest cause without notice; *Termination of Employment other than for Manifest Cause* – the Company may terminate the employment of Mr. Friberg without manifest cause upon one month's written notice; and *Termination upon Takeover, Merger or Acquisition* – should Mr. Friberg terminate the Friberg EA for good reason upon the occurrence of a takeover, merger or acquisition, Mr. Friberg will be paid one year's salary by the Company.

The Company does not currently have any other employment or consulting contracts in place with any other NEOs. The Company does not have in place any pension or retirement plan. The Company has not provided compensation, monetary or otherwise, during the preceding fiscal year, to any person who now acts or has previously acted as a NEO of the Company, in connection with or related to the retirement, termination or resignation of such person and the Company has provided no compensation to such persons as a result of a change of control of the Company, its subsidiaries or affiliates. Other than pursuant to the Tinajero CA, the Cole EA and the Friberg EA, the Company is not party to any compensation plan or arrangement with NEOs resulting from the resignation, retirement or the termination of employment of such person.

### Director Compensation

The Company did not pay any compensation to directors for the year ended June 30, 2010. The number of incentive Stock Options awarded to directors from time to time and the terms thereof will be determined at the discretion of the Board.

### Outstanding Option-based Awards to Directors

The following table sets out for each director (other than George Cole), the incentive Stock Options (option-based awards) outstanding as at June 30, 2010.

Name	Number of unexercised options	Option exercise price (US\$)	Option expiration date	Value of unexercised in-the-money options <sup>(1)</sup> (US\$)
Gary Nordin	300,000	0.20	November 1, 2015	30,000
	50,000	0.20	January 13, 2015	5,000
Randal Hardy	300,000	0.20	November 1, 2015	30,000
	50,000	0.20	January 13, 2015	5,000
Edward Thompson	Nil	N/A	N/A	N/A
Bryan Morris	Nil	N/A	N/A	N/A

*Note:*

(1) Based on an estimated Common Share value of US\$0.30 per Common Share.

## INDEBTEDNESS OF OFFICERS AND DIRECTORS

As of the date of this Prospectus there is no indebtedness of any executive officers, directors (or any associate of such director or executive officer), employees, or former executive officers, directors or employees, to the Company.

### AUDIT COMMITTEE

The primary function of the Audit Committee is to assist the Board in fulfilling its financial reporting and controls responsibilities to the shareholders of the Company. In accordance with NI 52-110, information with respect to the Audit Committee is contained below.

#### Audit Committee Charter

A copy of the Audit Committee Charter is attached hereto as Appendix “A”.

#### Composition of the Audit Committee

The Audit Committee is composed of Bryan Morris, Gary Nordin and Randal Hardy, each of whom is financially literate within the meaning of NI 52-110, and each of Bryan Morris and Gary Nordin are independent within the meaning of NI 52-110.

#### Relevant Education and Experience

For details regarding the relevant education and experience of each member of the Audit Committee relevant to the performance of his duties as a member of the Audit Committee, see “**Directors and Executive Officers**”.

#### Audit Fees

The fees paid to the Company’s external auditors in each of the last two fiscal years for audit fees are as follows:

<b>Financial Year Ending</b>	<b>Audit Fees (US \$)</b>	<b>Tax Fees (US \$)</b>
2010.....	11,000	1,500
2009.....	11,577	1,000

## CORPORATE GOVERNANCE

### Board of Directors

Directors are considered to be independent if they have no direct or indirect material relationship with the Company. A material relationship is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a director’s independent judgment. A majority of the Board is independent and the independent members of the Board are Edward Thompson, Bryan Morris and Gary Nordin. George Cole is not independent, by virtue of his management role with the Company. Randal Hardy is not independent by virtue of his management role with Timberline and Timberline’s shareholdings in the Company.

The following table identifies each director of the Company who is presently a director of any other issuer that is a reporting issuer (or the equivalent) in the jurisdiction or a foreign jurisdiction:

<b>Director</b>	<b>Reporting Issuer (or equivalent)</b>
-----------------	---

<b>Director</b>	<b>Reporting Issuer (or equivalent)</b>
George Cole.....	FDG Mining Inc. Stoneshield Capital Corp. Trelawney Mining and Exploration Inc.
Randal Hardy.....	Timberline Resources Corporation
Gary Nordin.....	Canasil Resources Inc. Portal Resources Ltd.
Edward Thompson.....	Copper Reef Mining Corporation Auen Queen Mining Co. Ltd. Sparton Resources Inc. Stratabound Minerals Corp. Tri Origin Exploration Ltd. Western Troy Capital Resources Inc.
Bryan Morris .....	Andean American Gold Corp. Inca Pacific Resources Inc. Sinchao Metals Corp. Zazu Metals Corp.

### **Board Mandate**

The Company has not adopted a written mandate for the Board. To date, the responsibilities of the Board have been delineated by the establishment of an Audit Committee and through discussion among the directors.

### **Position Descriptions**

The Board has not developed a written position description for the Chairman of the Board and for the chairman of each board committee or for the President and CEO. The roles and responsibilities of such positions have to date been delineated in accordance with customary practice. It is anticipated that written descriptions for these roles will be contained in a board mandate.

### **Orientation and Continuing Education**

The Company has not yet adopted any policies or procedures with respect to director orientation or continuing education.

### **Ethical Business Conduct**

The Board has not adopted a written ethics code. The Company believes that the fiduciary duties placed on directors by the Company's governing corporate legislation and the common law and the restrictions placed by applicable corporate legislation on the participation by directors in decisions of the board in which the director has an interest, provides sufficient protection to ensure that the board operates independently of management and in the best interests of the Company.

### **Nomination of Directors**

The Board is responsible for considering and recommending nominees for election to the Board and implement an effective Board succession plan. In that regard, the Board is responsible for: (i) considering the appropriate size and composition of the Board, selection criteria for proposed new directors, Board requirements and the performance and contributions of Board members; (ii) identifying, interviewing and recommending new candidates for the Board; (iii) directing that a majority of the directors is independent according to applicable corporate governance rules and

best practices; (iv) retaining and directing any search firm to be used to identify director candidates (including approval of associated fees and other terms); and (v) satisfying itself that adequate orientation regarding the operation of the Company and the Board is provided to new and current members.

### **Compensation**

The Board is responsible for reviewing the compensation for the Company's directors, CEO and CFO and determines the compensation for the directors and such officers.

### **Other Board Committees**

The Audit Committee is currently the only committee established by the Board.

### **Assessments**

The Board monitors the strategic direction and processes of the Board and its committees. The Board has not yet determined whether or not to implement any processes for formal assessments of directors.

## **PLAN OF DISTRIBUTION**

### **Offering**

Pursuant to the Agency Agreement, the Company has appointed the Agent as its agent to offer the Units for sale, subject to the terms and conditions of the Agency Agreement. The Agent will receive a cash commission of \$0.027 per Unit. In addition, the Agent will be granted Broker Warrants to purchase that number of Broker Warrant Shares equal to 9% of the total number of Units sold pursuant to the Offering. The Broker Warrants will be exercisable at \$0.30 for a period of 24 months from the Closing Date of the Offering. In addition, the Agent will receive 80,000 Corporate Finance Shares, issuable upon successful completion of the Offering. The Corporate Finance Shares, Broker Warrants and Broker Warrant Shares issuable upon the exercise of the Broker Warrants are all qualified for distribution by this Prospectus. The Company has agreed to pay the Agent an Agent's Fee of \$225,000 in the case of the Minimum Offering and \$360,000 in the case of the Maximum Offering and the reasonable fees and disbursements of counsel to the Agent incurred in connection with this Offering plus applicable taxes and disbursements. While the Agent agreed to use their best efforts to sell the Units, it is not obligated to purchase any Units. The Agency Agreement provides that the obligations of the Agent pursuant to the Agency Agreement may be terminated at its discretion on the basis of their assessment of the state of the financial markets or upon the occurrence of certain stated events. The offering price of the Units has been determined by negotiation between the Company and the Agent.

Subscriptions for Units 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. If the Minimum Offering does not close, the subscription funds will be returned to subscribers without interest or deduction. All funds received from the sale of the Units will be deposited and held in trust by the Agent pursuant to the terms of the Agency Agreement. None of the funds held in trust will be released until all closing conditions have been satisfied, including the completion of the Minimum Offering and the issuance of a receipt from the securities regulatory authorities for this Prospectus in respect of the Offering, failing which all subscription proceeds from the Offering will be returned to subscribers without interest or deduction.

The distribution of securities offered hereunder must cease within ● days after the date of the receipt issued for this Prospectus unless an amendment to this Prospectus has been filed and a receipt has been issued therefore. In the event a receipt is issued for an amendment to this Prospectus then the distribution must cease within ● days after the date of such receipt.

Pursuant to policy statements of certain securities commissions and the rules of the Investment Industry Regulatory Organization of Canada known as the "Universal Market Integrity Rules", the Agent may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. These include certain exceptions for market stabilization and passive

market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution or was unsolicited. In accordance with the aforementioned exceptions, in connection with the Offering, the Agent may affect transactions which stabilize or maintain the market price of the Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Units, the Unit Shares, the Corporate Finance Shares, the Warrants and the Warrant Shares have not been and will not be registered under the U.S. Securities Act or applicable state securities laws, and the Units, the Unit Shares and the Warrants may not be offered, sold or delivered, directly or indirectly, to, or for the account or benefit of, persons in the United States or U.S. Persons, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Agent has agreed that, except as permitted by the Agency Agreement and as expressly permitted by applicable United States federal and state securities laws, it will not offer or sell any of such securities to, or for the account or benefit of, persons in the United States or U.S. Persons. The Agency Agreement permits the Agent to offer such securities outside the United States to non-U.S. Persons to persons whom the Company will sell such securities directly in compliance with Regulation S under the U.S. Securities Act. The Agency Agreement also enables the Agent, through its U.S. registered broker-dealer affiliate, to offer such securities to, or for the account or benefit of, persons in the United States and U.S. Persons to whom the Company will sell such securities directly where such persons 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 Units, the Unit Shares or the Warrants to, or for the account or benefit of, persons in the United States or U.S. Persons. In addition, until 40 days after the commencement of the Offering, an offer or sale of such securities 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 Warrants will not be exercisable by or on behalf of a person in the United States or a U.S. Person, nor will certificates representing the Warrant Shares be registered or delivered to an address in the United States, unless an exemption from registration under the U.S. Securities Act and any applicable state securities laws is available and the Company has received an opinion of counsel of recognized standing to such effect in form and substance reasonably satisfactory to the Company; provided, however, that an “accredited investor,” as such term is defined in Rule 501(a) of Regulation D under the U.S. Securities Act, at the time of exercise of the Warrants that purchased Units in the offering to, or for the account or benefit of, persons in the United States and U.S. Persons will not be required to deliver an opinion of counsel in connection with the exercise of Warrants that are a part of those Units.

The Unit Shares, the Warrants and Warrant Shares issued to, or for the account or benefit of, persons in the United States or U.S. Persons will be “restricted securities” within the meaning of Rule 144(a)(3) of the U.S. Securities Act. Certificates representing any securities that are offered, sold or issued to, or for the account or benefit of, persons in the United States or U.S. Persons 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.

The Agent may offer selling group participation, in the normal course of the brokerage business, to selling groups of other licensed broker dealers, brokers and investment dealers, who may or may not be offered part of the commissions or other compensation derived from this Offering.

Except as disclosed in this Prospectus, the Company has not made and will not 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.

Pursuant to the Agency Agreement the Company has agreed to indemnify the Agent and their affiliates, directors, officers, employees and agent against certain liabilities.



## **Stand-still Arrangement**

Under the Agency Agreement, the Company agreed that it will not, for a period of ● days following the Closing Date, without the prior written consent of the Agent, such consent not to be unreasonably withheld, authorize, sell or issue or announce its intention to authorize, sell or issue, for cash proceeds, negotiate or enter into an agreement to sell or issue for cash proceeds, any securities of the Company (including those that are convertible or exchangeable into securities of the Company) other than (i) pursuant to the Offering; (ii) upon the exercise of convertible securities, options or warrants of the Company outstanding at the date of this Prospectus; or (iii) pursuant to the Stock Option Plan.

In addition, each officer and director of the Company, is expected to execute and deliver written agreements in favour of the Agent pursuant to which they agreed that they will not, for a period of ● days following the Closing Date, directly or indirectly, offer, sell, contract to sell, lend, swap, or enter into any other agreement to transfer the economic consequences of, or otherwise dispose of or deal with, or publicly announce any intention to offer, sell, contract to sell, grant or sell any option to purchase, hypothecate, pledge, transfer, assign, purchase any option or contract to sell, lend, swap or enter into any agreement to transfer the economic consequences of, or otherwise dispose of or deal with, whether through the facilities of a stock exchange, by private placement or otherwise, any securities of the Company held by such executive officers, directors and principal shareholders (and the associates thereof), directly or indirectly, other than to an affiliate, without the prior written consent of the Agent, which consent will not be unreasonably withheld or delayed. The agreements do not apply to any Units or Common Shares acquired pursuant to or following the Closing Date.

The Company has applied to list the Unit Shares, Warrant Shares, Broker Warrant Shares and Corporate Finance Shares distributed under this Prospectus on the TSXV. Any such listing of the Unit Shares, Warrant Shares, Broker Warrant Shares and Corporate Finance Shares will be subject to the Company fulfilling all the listing requirements and conditions of the TSXV.

## **RISK FACTORS**

**The securities of the Company should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this Prospectus prior to making an investment in the securities of 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 the securities of the Company.**

### **The Company may not successfully execute its project plans**

Project delays may delay the expected commencement of commercial production and expected revenues from operations. Significant project cost over-runs could make the Projects uneconomic. The Company's ability to execute projects and market Au and/or Ag will depend upon numerous factors beyond the Company's control, including the availability of processing capacity, the availability of storage capacity, the supply of and demand for Au and/or Ag, the effects of inclement weather, the availability of drilling and related equipment, unexpected cost increases, accidental events, currency fluctuations, changes in regulations, the availability and productivity of skilled labour, and the regulation of the mining industry by various levels of government and governmental agencies.

As a result of the foregoing factors, the Company may be unable to develop the Projects on time, on budget or at all, and may not be able to effectively market the Au and/or Ag that it produces.

### **The Company depends on two properties and any adverse change to those properties would materially impact the Company**

The Company's primary assets are its 100% interest in the Liscay Property and the Toro Blanco Property. Any material adverse development affecting the progress of these properties will have a material adverse effect on the Company's business, financial performance, results of operations and prospects.

**The Company may become subject to litigation, the results of which may have a material and adverse impact on the Company's business, financial position and prospects**

The Company may become involved in, named as a party to, or the subject of, various legal proceedings, as well as contract disputes, regulatory proceedings, tax proceedings and legal actions relating to intellectual property, product liability, property damage, property taxes, land rights, and the environment. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Company and as a result, could have a material adverse effect on the Company's assets, liabilities, business, financial condition and results of operations. Even if the Company prevails in any such legal proceedings, the proceedings could be costly and time-consuming and would divert the attention of management and key personnel from the Company's business operations, which could adversely affect the Company's financial condition.

**The Company's future mining operations are subject to the normal risks associated with mine operations**

The Company's future mining operations are subject to the risks normally incident to extraction of minerals, including explosions and other accidents, fires, flooding, discharge of toxic chemicals and other hazards, all of which could result in personal injuries, loss of life, damage to the property of the Company and others, environmental damage, delayed production, increased production costs, unexpected capital costs, and possible legal liability for any and all damages. The occurrence of any such risks or such liabilities may have a material adverse effect on the Company's financial position and prospects.

**Competitive Conditions**

The mineral exploration and mining industry is competitive in all phases of exploration, development and production. The Company competes with a number of other entities and individuals in the exploration of, search for and the acquisition of attractive mineral properties. As a result of this competition, much of which is with corporations with greater financial resources than the Company, there can be no guarantee that the Company will be able to obtain funding for its exploration projects, or to obtain and maintain the necessary resources to carry out such exploration or acquire attractive properties in the future on terms it considers acceptable. Many of the other resource companies that the Company competes with have greater financial resources and/or more advanced properties that may be better able to attract equity investment and other capital. The ability of the Company to acquire attractive mineral properties in the future depends not only on its success in exploring and developing its present properties but also on its ability to select, acquire and bring into production or otherwise deal with suitable properties or prospects for exploration, mining and development. Factors beyond the control of the Company may affect the marketability of any minerals mined or discovered by the Company.

**Trends**

There are significant uncertainties regarding the prices of Au and other minerals and the availability of equity financing for the purposes of exploring and developing projects aimed at producing such minerals. For instance, the price of Au and other minerals has fluctuated widely in recent years and such fluctuations seem likely to continue. The future performance of the Company is tied to the outcome of future drilling results and the overall financial markets. Apart from the risk factors noted hereunder, management is not aware of any other trends, commitments, events or uncertainties that would have a material adverse effect on the Company's business, financial condition or results of operations.

**Limited Operating History**

The Company has no history of earnings. The Company's properties are in the exploration stage and there are no known commercial quantities of mineral reserves on such properties. The purpose of the Offering is to raise funds to carry out exploration and development with the objective of establishing economic quantities of mineral reserves. There can be no assurance that that the Company will discover quantities of minerals on its properties that can be economically produced.

The Company has no experience in placing resource properties into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other

major resource companies that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if the Company places any of its projects into production.

### **Title Risks**

Although the Company has exercised the usual due diligence with respect to determining title to properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company's mineral property interests may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. Surveys have not been carried out on any of the Company's mineral properties in accordance with the laws of the jurisdiction in which such properties are situated; therefore, their existence and area could be in doubt. Until competing interests in the mineral lands have been determined, the Company can give no assurance as to the validity of title of the Company to those lands or the size of such mineral lands.

### **Failure to obtain additional financing and Dilution**

In the past, the Company has not had and does not currently have positive cash flow from operations. The Company's available cash has been used and will continue to be used to fund its negative cash flow. No assurance can be given that the Company will ever generate a positive cash flow from operations.

The Company does not currently have the financial resources necessary to undertake all of its currently planned activities. If the Company completes the Offering, it will be able to undertake an exploration program. However, there can be no assurance that the Company will be successful in obtaining any additional required funding necessary to conduct additional exploration, if warranted, on the Company's exploration properties or to develop mineral resources on such properties, if commercially mineable quantities of such resources are located thereon. Failure to obtain additional financing on a timely basis could cause the Company to forfeit its interest in such properties. In addition, if available, further equity financing may result in substantial dilution to purchasers under this Offering.

### **Exploration and Development**

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are 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 numerous factors that are beyond the control of the Company and that cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection, the combination of which factors may result in the Company not receiving an adequate return of investment capital. All of the claims to which the Company has a right to acquire an interest are in the exploration stage only and are without a known body of commercial minerals. Development of the subject mineral properties would follow only if favourable exploration results are obtained.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any discoveries of commercial bodies of ore. The long-term profitability of the Company's operations will in part be directly related to the costs and success of its exploration programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

### **Sample Collection and Preparation**

The Company cannot guarantee that any aspect of sample collection or preparation was not conducted by an officer, director or associate of Geologix or the Subsidiary, and is not able to verify any issues relating to sample security.

## **Production**

Mineral exploration is highly speculative in nature, involves many risks, and frequently does not lead to the discovery of commercial reserves of minerals. While the rewards can be substantial if commercial reserves of minerals are found, there can be no assurance that the Company's past or future exploration efforts will be successful, that any production therefrom will be obtained or continued, or that any such production which is attempted will be profitable.

## **Environmental Regulations, Permits and Licenses**

The Company's operations may be subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner that means standards are stricter, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. The Company intends to comply fully with all environmental regulations. The current or future operations of the Company, including development activities and commencement of production on its properties, require permits from various federal, state or territorial and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Such operations and exploration activities are also subject to substantial regulation under applicable laws by governmental agencies that may require the Company to obtain permits from various governmental agencies. There can be no assurance, however, that all permits that the Company may require for its operations and exploration activities will be obtainable on reasonable terms or on a timely basis or that such laws and regulations will not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties. To the best of the Company's knowledge, it is operating in compliance with all applicable rules and regulations.

## **Insurance and Uninsured Risks**

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance may not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

### **Lags**

The Company is unable to predict the amount of time which may elapse between the date when any new mineral resource may be discovered and the date when production will commence from any such discovery.

### **Infrastructure**

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, terrorism, 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.

### **Management**

The success of the Company is currently largely dependent on the performance of its directors and officers. There is no assurance that the Company can maintain the services of its directors and officers or other qualified personnel required to operate its business. The loss of the services of these persons could have a material adverse effect on the Company and its prospects.

### **Price Volatility of Publicly Traded Securities**

In recent years, the securities markets throughout the world, including in the United States and Canada, have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the Common Shares will be subject to market trends and conditions generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings.

The value of securities qualified hereunder will be affected by market volatility. There is and has been no public market for the Common Shares. An active public market for the Common Shares might not develop or be sustained if one should develop. The offering price of the Common Shares was determined by arm's length negotiation between the Company the Agent and such price will not necessarily reflect the prevailing market price of the Common Shares in the future, including following any listing of the Common Shares on the TSXV if such a listing occurs. If an active public market for the Common Shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline below the offering price for the Common Shares.

### **Conflicts of Interest**

Some of the directors and officers are engaged and will continue to be engaged in the search for additional business opportunities on behalf of other corporations, and situations may arise where these directors and officers will be in direct competition with the Company. Conflicts, if any, will be dealt with in accordance with the relevant provisions of applicable corporate law.

## **Dividends**

The Company has not paid any dividends on its Common Shares since incorporation and does not anticipate paying any dividends on its Common Shares in the foreseeable future. The Company has a limited operating history and there can be no assurance of its ability to operate its projects profitably.

## **Speculative Nature of the Securities of the Company**

The securities of the Company are speculative in nature due to the Company's activities. Mineral exploration is highly speculative and involves material risks. The securities of the Company are more suited to persons who can accept the risks inherent in holding shares of a mineral exploration company. No guarantee can be given that an economical viable deposit will be discovered.

## **Estimates of Mineral Resources**

There are numerous uncertainties inherent in estimating ore reserves and mineral resources. The accuracy of any reserve or resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation.

Fluctuations in precious or base metal prices, results of drilling, metallurgical testing, and production and the evaluation of mine plans subsequent to the date of any estimate may require revision of such estimate. The volume and grade of reserves mined and processed and recovery rates may not be the same as anticipated. In addition, there can be no assurance that precious or base metal recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

Any material reductions in estimates of ore reserves and mineral resources could eventually have a material adverse effect on the Company's results of operations and financial condition.

## **Foreign Countries and Regulatory Requirements**

Natural resource activities may be affected in varying degrees by political and financial instability, inflation and haphazard changes in government regulations relating to this industry. Any changes in regulations or shifts in political or financial conditions are beyond the Company's control and many adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and safety.

## **Currency Fluctuations**

The Company's property interests in Peru make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position and results. Accordingly, the Company may suffer losses due to adverse foreign currency fluctuations. The Company bears the risk of incurring losses as a result of rampant inflation in Peru.

## **Foreign Assets**

The Company's material assets (comprised of the interests in the Liscay Property and the Toro Blanco Property) are located in Peru. Accordingly, it may not be possible for investors to effect service of process within Canada. It may also not be possible to enforce against the Company judgements obtained in Canadian courts predicated upon civil liability provisions of applicable securities laws in Canada.

## **Income Tax Issue**

Income tax consequences in relation to the Units will vary according to circumstances of each investor. Prospective investors should seek independent advice from their own tax and legal advisors prior to subscribing for the Units.

### **Absence of Public Trading Market**

The Company currently has 12,095,900 Common Shares trading on the OTC Pink Sheets in the United States. However, the OTC Pink Sheets is not a “US marketplace” as within the meaning of National Instrument 51-102. Subject to this limited exception, there is no public market for the Common Shares, and there can be no assurance that an active market for the Common Shares will develop or be sustained. If an active public market for the Common Shares does not develop, the liquidity of a subscriber’s investment may be limited and the share price may decline below the offering price for the Common Shares.

## **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Irwin Lowy LLP, counsel to the Company, the following is a summary, as of the date hereof, of the principal Canadian federal income tax considerations generally applicable to persons who acquire Units under the Offering. This summary is applicable only to a Holder. Unit Shares, Warrant Shares and Warrants will generally be considered to be capital property to a Holder unless the Holder holds such securities in the course of carrying on a business of trading or dealing in securities or otherwise as part of a business of buying and selling securities or has acquired them in a transaction or transactions considered to be an adventure in the nature of trade.

This summary assumes that the Company is not a “foreign affiliate” or a “controlled foreign affiliate” of any relevant Holder. In general terms, the Company will not be a foreign affiliate or a controlled foreign affiliate if such Holder (together with all non-arm’s length persons) holds less than 10% of each class of the issued shares of the Company. The provisions of the Tax Act that apply in respect of holdings in foreign affiliates or controlled foreign affiliates are complex and Holders are advised to consult their own tax advisors regarding these rules.

This summary also assumes that the Company is not and will not at any time be a resident in Canada or a “Canadian corporation” for the purposes of the Tax Act.

This summary does not apply to a Holder that is a “financial institution” as defined in the Tax Act for the purpose of the “mark-to-market” rules, or to a Holder that is a “specified financial institution”, as defined in the Tax Act, or to a Holder an interest in which is a “tax shelter investment”, as defined in the Tax Act or to a Holder that has elected to report its “Canadian tax results”, as defined in the Tax Act, in a currency other than the Canadian currency.

This summary is based on the current provisions of the Tax Act, the Regulations thereunder, all Proposed Amendments to the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and counsel’s understanding of the current published administrative and assessing practices of the CRA. No assurance can be given that the Proposed Amendments will be enacted in their current proposed form or at all.

For the purposes of the Tax Act, all amounts, including the adjusted cost base of the Unit Shares, the Warrant Shares and the Warrants, dividends received on the Unit Shares and the Warrant Shares and proceeds of disposition from the Unit Shares, the Warrant Shares and the Warrants, must be determined in Canadian dollars using the rate of exchange quoted by the Bank of Canada at noon on the date such amounts first arose or such other rate of exchange as is acceptable to the CRA.

**This summary is of a general nature only and is not exhaustive of all Canadian federal income tax considerations that may be relevant to a particular Holder. It is not intended to be, and should not be construed as, legal or tax advice to any particular Holder. This summary does not otherwise take into account**

**or anticipate any changes in law, whether by judicial, governmental or legislative decision or action, or changes in the administrative or assessing practices of the CRA. This summary also does not take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations. Therefore, any persons contemplating a purchase of Units under the Offering should consult their own tax advisors with respect to their particular circumstances.**

#### *Allocation of Purchase Price*

The total purchase price of a Unit to a purchaser must be allocated on a reasonable basis between the Unit Share and the one-half of one Warrant to determine the cost of each to the purchaser for purposes of the Tax Act. For its purposes, the Company intends to allocate \$0.299 of the Offering Price for a Unit as consideration for the issue of each Unit Share and \$0.001 of the Offering Price as consideration for the issue of each one-half of one Warrant.

Although the Company believes that its allocation is reasonable, it is not binding on the CRA or the Holder. The Holder's adjusted cost base of the Unit Share comprising a part of each Unit will be determined by averaging the cost allocated to the Unit Share with the adjusted cost base to the holder of all common shares of the Company owned by the Holder as capital property immediately prior to such acquisition.

#### *Exercise of Warrants*

No gain or loss will be realized by a Holder upon the exercise of a Warrant to acquire a Warrant Share. When a Warrant is exercised, the Holder's cost of the Warrant Share acquired thereby will be the aggregate of the Holder's adjusted cost base of such Warrant and the exercise price paid for the Warrant Share. The Holder's adjusted cost base of the Warrant Share so acquired will be determined by averaging such cost with the adjusted cost base to the Holder of all common shares of the Company owned by the Holder as capital property immediately prior to such acquisition. In the event of the expiry of an unexercised Warrant, the Holder will realize a capital loss equal to the Holder's adjusted cost base of such Warrant. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading "**Capital Gains and Capital Losses**".

#### *Disposition and Expiry of Warrants*

A disposition or deemed disposition by a Holder of a Warrant (other than upon the exercise thereof) will generally give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, are greater (or less) than such Holder's adjusted cost base of the Warrant. In the event of the expiry of an unexercised Warrant, the Holder will generally realize a capital loss equal to the Holder's adjusted cost base of such Warrant. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading "**Capital Gains and Capital Losses**".

#### *Disposition of Unit Shares*

A disposition or deemed disposition of Unit Shares (including Warrant Shares) by a Holder will generally give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, are greater (or less) than such Holder's adjusted cost base of the Unit Shares. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading "Capital Gains and Capital Losses".

#### *Capital Gains and Capital Losses*

Any taxable capital gain realized by a Holder must be included in the income of the Holder for the taxation year in which the disposition occurs. Subject to, and in accordance with, the provisions of the Tax Act, a Holder may deduct an allowable capital loss realized by the Holder against taxable capital gains realized in the taxation year of disposition. Allowable capital losses in excess of taxable capital gains for the taxation year of disposition may be applied to reduce net taxable capital gains realized in the three preceding taxation years or any subsequent taxation year, subject to the provisions of the Tax Act in that regard. A Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 2/3% on its "aggregate investment income" for the year which will include an amount in respect of taxable capital gains.



### *Taxation of Dividends*

The full amount of dividends received or deemed to be received by a Holder on Unit Shares or Warrant Shares, including amounts deducted for foreign withholding tax, if any, will be included in computing the Holder's income. For an individual (including a trust) the gross-up and dividend tax credit rules in the Tax Act will not apply to such dividends. A Holder that is a corporation will not be entitled to deduct the amount of such dividends in computing its taxable income. A Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 62.3% in respect of its "aggregate investment income" for the year, which will include such dividends. United States tax if any, payable by a Holder in respect of dividends received on Unit Shares or Warrant Shares may be eligible for a foreign tax credit or deduction under the Tax Act to the extent and under the circumstances described in the Tax Act. Prospective Holders should consult their own tax advisors with respect to the availability of a foreign tax credit or deduction, having regard to their own particular circumstances.

### *Foreign Property Information Reporting*

A purchaser of Units that is a "specified Canadian entity" (as defined in the Tax Act) for a taxation year or a fiscal period and whose total cost amount of "specified foreign property" (as defined in the Tax Act) including the Unit Shares, Warrant Shares or Warrants, at any time in the year or fiscal period exceeds \$100,000 will be required to file an information return for the taxation year or fiscal period disclosing prescribed information including the cost amount, any dividends received in the year, and any gains or losses realized in the year in respect of such property.

Subject to certain exceptions, a taxpayer resident in Canada in the year will generally be a specified Canadian entity. Failure to file an information return in respect of specified foreign property may result in penalties to the Holder. Holders should consult their own tax advisors regarding these rules.

### *Offshore Investment Fund Rules*

In the 2010 Canadian Federal Budget, tabled in the House of Commons on March 4, 2010, the Minister of Finance (Canada) announced that certain Proposed Amendments relating to the taxation of Canadian residents investing in foreign investment entities will not be implemented. Rather, the Minister of Finance (Canada) proposed amendments to the existing offshore investment fund property rules in the Tax Act. There can be no assurance that these amendments will be enacted as proposed, or at all.

The offshore investment fund property rules, in certain circumstances, may require a Holder to include an amount in income in each taxation year in respect of the acquisition and holding of the Unit Shares, the Warrant Shares or the Warrants if the value of such shares or warrants may reasonably be considered to be derived, directly or indirectly, primarily from portfolio investments in: (i) shares of the capital stock of one or more corporations, (ii) indebtedness or annuities, (iii) interests in one or more corporations, trusts, partnerships, organizations, funds or entities, (iv) commodities, (v) real estate, (vi) Canadian or foreign resource properties, (vii) currency of a country other than Canada, (viii) rights or options to acquire or dispose of any of the foregoing, or (ix) any combination of the foregoing ("**Investment Assets**"). In order for these rules to apply to a Holder, it must be reasonable to conclude, having regard to all the circumstances, that one of the main reasons for the Holder acquiring or holding the Unit Shares, the Warrant Shares or the Warrants was to derive a benefit from portfolio investments in Investment Assets in such a manner that the taxes, if any, on the income, profits and gains from such Investment Assets for any particular year are significantly less than the tax that would have been applicable under Part I of the Tax Act if the income, profits and gains had been earned directly by the Holder.

Where these rules apply, a Holder will generally be required to include in income for each taxation year in which the Holder owns Unit Shares, Warrant Shares or Warrants the amount, if any, by which (i) an imputed return for the taxation year computed on a monthly basis, where the amount in respect of each month is calculated as the product obtained when the Holder's "designated cost" (within the meaning of the Tax Act) of the Unit Shares, Warrant Shares or Warrants at the end of the month is multiplied by 1/12th of the applicable prescribed rate for the period

that includes such month, exceeds (ii) any dividends or other amounts included in computing the Holder's income for the year (other than a capital gain) in respect of such securities determined without reference to these rules. For these purposes, the designated cost to a Holder of Unit Shares, Warrant Shares or Warrants at any particular time in a taxation year will generally include among other things, the initial cost of acquisition of the Unit Shares, Warrant Shares or Warrants to the Holder and the total of all amounts required to be included in computing the Holder's income for a preceding taxation year as imputed income in respect of such securities under these rules. The prescribed rate is the Base Rate. On August 27, 2010, the Minister of Finance released draft legislation that would, if enacted, increase the Base Rate by two percentage points. Any amount required to be included in computing the Holder's income under the offshore investment fund property rules will be added to the adjusted cost base to the Holder of its Unit Shares, Warrant Shares or Warrants, as applicable.

These rules are complex and their application depends, in part, on the reasons for a Holder acquiring or holding the Unit Shares, the Warrant Shares or the Warrants. Holders are urged to consult their own tax advisors regarding the application and consequences of these rules in their own particular circumstances.

## **CERTAIN UNITED STATES OF AMERICA FEDERAL INCOME TAX CONSIDERATIONS**

### **United States Federal Income Taxation**

#### *General*

The following is a summary of material U.S. federal income tax consequences applicable to persons who acquire Units under the Offering. This summary is based upon the provisions of the Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in U.S. federal income consequences different from those set forth below. The Company has not sought, nor will it seek, a ruling from the IRS or an opinion of counsel with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant in light of particular circumstances, nor does it address the U.S. federal income tax consequences to persons who are subject to special rules under U.S. federal income tax law, including:

- banks, insurance companies or other financial institutions;
- persons subject to the alternative minimum tax;
- tax-exempt organizations;
- controlled foreign corporations, passive foreign investment companies and corporations that accumulate earnings to avoid United States federal income tax;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than five percent of our capital stock (except to the extent specifically set forth below);
- holders who acquired our stock as compensation or pursuant to the exercise of a stock option
- persons who hold our common stock as a position in a hedging transaction, "straddle", or other risk reduction transaction; or
- persons who do not hold our common stock as a capital asset (within the meaning of Section 1221 of the Code).

In addition, unless expressly provided below, this discussion does not address any foreign, state, or local laws or U.S. federal estate and gift tax laws.

In the case of a partnership or entity classified as a partnership for U.S. federal income tax purposes, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the

partnership. Partners of partnerships should consult their tax advisors regarding the U.S. federal income tax consequences to them of beneficial ownership of an interest in a partnership which acquires, holds and disposes of Units, Common Shares and Warrants.

## **General**

Each Unit should be treated for United States federal income tax purposes, as an investment unit consisting of one Unit Share of common stock and one-half of a Warrant to acquire one share of common stock. For U.S. federal income tax purposes, each holder of a Unit must allocate the purchase price paid by such U.S. Holder for such Unit, and the purchase price received by such U.S. Holder upon the disposition of such Unit, between the Unit Share and the one-half of a Warrant based on their respective relative fair market values.

The characterization of the Units described above and a U.S. Holder's purchase price allocation are not, however, binding on the IRS or the courts. Accordingly, prospective investors are urged to consult their tax advisors regarding the United States federal income tax consequences of an investment in a Unit (including alternative characterizations of a Unit) and with respect to any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction. Unless otherwise stated, the following discussion is based on the assumption that the characterization of the Units and the allocation described above are respected for United States federal income tax purposes.

### *The Company is Treated as a U.S. Corporation*

Pursuant to Section 7874 of the Code, the Company is treated as a U.S. corporation for all purposes under the Code because (i) immediately following the Domestication, the Company did not have substantial business activities in the Cayman Islands and (ii) the holders of the Company stock immediately prior to the Domestication, held at least 80% of the Company's outstanding stock. Because the Company is treated as a U.S. corporation for all purposes under the Code, the Company will not be treated as a "passive foreign investment company," as such rules apply only to non-U.S. corporations for U.S. federal income tax purposes.

## **Tax Consequences to U.S. Holders**

### *Distributions*

A U.S. Holder will be required to include in gross income as ordinary income the amount of any cash dividend paid on Common Shares. A cash distribution on such Common Shares generally will be treated as a dividend for U.S. federal income tax to the extent paid out of current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Such dividends will be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations. The portion of such cash distribution in excess of current and accumulated earnings and profits will be treated first as a tax-free return of tax basis, and to the extent that the amount of the distribution exceeds tax basis, the excess will be treated as capital gain. With certain exceptions, if the applicable holding period and other requirements are satisfied, cash dividends paid to a non-corporate U.S. Holder generally will constitute "qualified dividends" that will be subject to tax at the maximum regular tax rate accorded to long-term capital gains for taxable years beginning before January 1, 2013, after which the regular U.S. federal income tax rate applicable to dividends is scheduled to return to the regular U.S. federal income tax rate generally applicable to ordinary income.

### *Sale or Other Disposition of Common Shares or Warrants*

Upon a sale or other taxable disposition of Common Shares or Warrants, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized and the U.S. Holder's adjusted tax basis in such Common Shares or Warrants.

A U.S. Holder's initial tax basis in the Unit Shares and Warrants generally will equal the U.S. Holder's acquisition cost (i.e., the portion of the purchase price of a Unit allocated to that Unit Shares stock and Warrants, as the case

may be). (See below, “**U.S. Holders – Exercise or Lapse of Warrants**” for determination of a U.S. Holder’s basis in Common Shares acquired pursuant to the exercise of the Warrants).

The regular U.S. federal income tax rate on capital gains recognized by U.S. Holders generally is the same as the regular U.S. federal income tax rate on ordinary income, except that long-term capital gains recognized by non-corporate U.S. Holders generally are subject to U.S. federal income tax at a maximum regular rate of 15% for taxable years beginning before January 1, 2013 (but currently scheduled to increase to 20% for taxable years beginning on or after January 1, 2013). Capital gain or loss will constitute long-term capital gain or loss if the U.S. Holder’s holding period for the ordinary shares of the Company disposed of exceeds one year. The deductibility of capital losses is subject to various limitations.

### **Exercise or Lapse of Warrants**

Except as discussed below with respect to the cashless exercise of the Warrants, upon the exercise of the Warrants, a U.S. Holder will not recognize gain or loss and will have a tax basis in the Common Shares received equal to the U.S. Holder’s tax basis in the Warrant plus the exercise price of the Warrant. The holding period for the Common Shares purchased pursuant to the exercise of the Warrants will begin on the date following the date of exercise and will not include the period during which the U.S. Holder held the Warrant. In the event that a Warrant lapses unexercised, a U.S. Holder will recognize a capital loss in an amount equal to his tax basis in the Warrant. Such loss will be long-term capital loss if the Warrant has been held for more than one year as of the date the Warrant lapsed. The deductibility of capital losses are subject to certain limitations.

The tax consequences of a cashless exercise of a Warrant are not clear under current tax law. A cashless exercise may be tax-free, either because the exercise is not a gain recognition event or because the exercise is treated as a recapitalization for United States federal income tax purposes. In either tax-free situation, a holder’s basis in the Common Shares received would equal the Holder’s basis in the warrant. If the cashless exercise were treated as not being a gain recognition event, the Holder’s holding period in the Common Shares would be treated as commencing on the date following the date of exercise of the Warrant. If the cashless exercise were treated as a recapitalization, the holding period of the Common Shares would include the holding period of the Warrant.

It is also possible that a cashless exercise could be treated as a taxable exchange in which gain or loss would be recognized. In such event, a Holder could be deemed to have surrendered a number of Warrants with a fair market value equal to the exercise price for the number of Warrants deemed exercised (i.e., the number of Warrants equal to two times the number of Common Shares issued pursuant to the cashless exercise of the Warrants). The holder would recognize capital gain or exercise price and the holder’s tax basis in such Warrants deemed surrendered. In this case, a holder’s tax basis in the Common Shares received would equal the sum of the fair market value of the Warrants deemed surrendered to pay the exercise price and the holder’s tax basis in the Warrants deemed exercised. A holder’s holding period for the Common Shares would commence on the date following the date of exercise of the Warrant.

**DUE TO THE ABSENCE OF AUTHORITY ON THE UNITED STATES FEDERAL INCOME TAX TREATMENT OF A CASHLESS EXERCISE OF WARRANTS, THERE CAN BE NO ASSURANCE WHICH, IF ANY, OF THE ALTERNATIVE TAX CONSEQUENCES AND HOLDING PERIODS DESCRIBED ABOVE WOULD BE ADOPTED BY THE IRS OR A COURT OF LAW. ACCORDINGLY, HOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF A CASHLESS EXERCISE OF WARRANTS.**

### *Recent Legislative Developments*

For taxable years beginning after December 31, 2012, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to a 3.8% Medicare contribution tax on unearned income, including, among other things, cash dividends on, and capital gains from the sale or other taxable disposition of Common Shares and Warrants, subject to certain limitations and exceptions.

### **Tax Consequences to Non-U.S. Holders**

## *Distributions*

Any dividends paid to a non-U.S. Holder by the Company to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles) will be treated as income derived from sources within the United States and generally will be subject to U.S. federal income tax withholding at a rate of 30% of the gross amount of the dividends, or at a lower rate provided by an applicable income tax treaty if non-U.S. Holders provide proper certification of eligibility for the lower rate (usually on IRS Form W-8BEN).

Any distribution not constituting a dividend will be treated first as reducing (but not below zero) the non-U.S. Holder's adjusted tax basis in its Common Shares and, to the extent such distribution exceeds the non-U.S. Holder's adjusted tax basis, as gain realized from the sale or other disposition of the Common Shares, which will be treated as described under "**Non-U.S. Holders – Sale or Other Disposition of Common Shares and Warrants**" below. In addition, if the Company determines that it is likely to be classified as a "United States real property holding corporation" (see "**Non-U.S. Holders – Sale or Other Disposition of Common Shares and Warrants**" below), the Company will withhold 10% of any distribution that exceeds our current and accumulated earnings and profits.

Dividends received by a non-U.S. Holder that are effectively connected with such holder's conduct of a U.S. trade or business (and, if an income tax treaty applies, such dividend is attributable to a permanent establishment maintained by the non-U.S. Holder in the U.S.) generally will not be subject to such withholding tax, provided that applicable certification requirements are satisfied (Usually by providing an IRS Form W-8ECI). In such case, however, non-U.S. Holders will be subject to U.S. federal income tax on such dividends, net of certain deductions, at the rates applicable to U.S. persons. In addition, corporate non-U.S. Holders may be subject to an additional branch profits tax equal to 30% or such lower rate as may be specified by an applicable tax treaty on dividends received that are effectively connected with the conduct of a trade or business in the United States.

### *Sale or Other Disposition of Common Shares or Warrants*

A non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale, exchange or other disposition of Common Shares unless:

- the gain is effectively connected with the conduct of a trade or business in the United States, and, if an income tax treaty applies, is attributable to a permanent establishment maintained by such holder in the U.S.;
- the holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition, and certain other conditions are met; or
- the Company is or has been a USRPHC for U.S. federal income tax purposes at any time during the shorter of the five year period ending on the date of disposition or the Non-U.S. Holder's holding period for such shares disposed of, and generally, in the case where such shares are regularly traded on an established securities market, the Non-U.S. Holder has owned, directly or indirectly, more than 5% of the Common shares of the Company at any time during the shorter of the five year period ending on the date of disposition or the Non-U.S. Holder's holding period for the Common Shares disposed of.

Non-U.S. Holders whose gain is described in the first bullet point above will be subject to U.S. federal income tax on the gain derived from the sale, net of certain deductions, at the rates applicable to U.S. persons, within the meaning of the Code. Corporate non-U.S. holders whose gain is described in the first bullet point above may also be subject to the branch profits tax described above at a 30% rate or lower rate provided by an applicable income tax treaty. Individual non-U.S. holders described in the second bullet point above will be subject to a flat 30% U.S. federal income tax rate on the gain derived from the sale, which may be offset by U.S.-source capital losses, even though such non-U.S. holders are not considered to be residents of the United States.

A corporation will be a USRPHC if the fair market value of its U.S. real property interests equals or exceeds 50 percent of the aggregate of its real property interests (U.S. and non-U.S.) and its assets used or held for use in a trade or business. Based on the current composition of the assets of the Company, it is expected that the Company will

not be a USRPHC (although no assurance can be given that the Company will not become a USRPHC in the future). Even if the Company becomes a USRPHC, however, as long as the Common Shares are regularly traded on an established securities market, such Common Shares will be treated as U.S. real property interests only if you actually or constructively hold more than five percent of such regularly traded common stock at any time during the applicable period that is specified in the Code.

### **Backup Withholding and Information Reporting**

Payments of dividends or of proceeds on the disposition of Common Shares made to a holder of may be subject to information reporting and backup withholding at a current rate of 28% unless such holder provides a correct taxpayer identification number on IRS Form W-9 (or other appropriate withholding form) or establishes an exemption from backup withholding, for example by properly certifying your non-U.S. status on a Form W-8BEN or another appropriate version of IRS Form W-8. Payments of dividends to holders must generally be reported annually to the IRS, along with the name and address of the holder and the amount of tax withheld, if any. A similar report is sent to the holder. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in the holder's country of residence.

Backup withholding is not an additional tax. Rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

#### *Exercise of a Warrant*

The U.S. federal income tax treatment of a non-U.S. Holder's exercise of a Warrant generally will correspond to the U.S. federal income tax treatment of the exercise of a Warrant by a U.S. Holder, as described under "U.S. Holders – Exercise of a Warrant" above, although to the extent a cashless exercise results in a taxable exchange, the consequences would be similar to those described below in "**Non-U.S. Holders – Sale or Other Disposition of Common Shares and Warrants.**"

### **Recently Enacted Legislation Affecting Taxation of Common Shares Held by or Through Foreign Entities**

Recently enacted legislation generally will impose a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of Common Shares paid after December 31, 2012 to a "foreign financial institution" (as specially defined under these rules) unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). The legislation also will generally impose a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our Common Shares paid after December 31, 2012, to a non-financial foreign entity unless such entity provides the withholding agent with a certification identifying the direct and indirect U.S. owners of the entity. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. Non-U.S. Holders should consult with their own tax advisors regarding the effect, if any, of such withholding taxes on their ownership and disposition of Common Shares.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Management is not aware of any legal proceedings the Company is or was a party to, or that any of its property is or was the subject of, since the beginning of the Company's most recently completed financial year or for which financial statements of the Company are included in this Prospectus.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No director, executive officer or principal shareholder of the Company, or associate or affiliate of any of the foregoing, has had any material interest, direct or indirect, in any transaction within the preceding three years or in

the current financial year or in any proposed transaction that has materially affected or will materially affect the Company.

#### **EXPERTS AND INTEREST OF EXPERTS**

The information on the Projects is summarized from the Technical Reports, each prepared by John A. Brophy, Professional Geologist. A copy of each of the Technical Reports can be found on the Company's disclosure page on [www.sedar.com](http://www.sedar.com). The Technical Reports were prepared by John A. Brophy, an independent consulting geologist, is independent of the Company and has no interest in the Projects. John A. Brophy does not own beneficially, directly or indirectly, more than 1%, respectively, of any class of securities of the Company.

#### **LEGAL MATTERS**

Certain legal matters relating to the Offering will be passed upon on behalf of the Company by Irwin Lowy LLP and on behalf of the Agent by Burstall Winger LLP. At the date hereof, the partners and associates of Irwin Lowy LLP, as a group and the partners and associates of Burstall Winger LLP, as a group do not own beneficially, directly or indirectly, more than 1%, respectively, of any Common Shares of the Company.

#### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

##### **Auditor**

The Company's auditor is BehlerMick PS, located at 601 W Riverside, Suite 430, Spokane, WA 99201. BehlerMick is independent of the Company.

##### **Transfer Agents and Registrar**

The transfer agent and registrar of the Common Shares is Equity Financial Trust Company, located at 200 University Avenue, Suite 400, Toronto Ontario M5H 4H1. Equity has also been appointed the warrant agent under the Warrant Indenture.

#### **MATERIAL CONTRACTS**

Except for contracts made in the ordinary course of business, the following are the only material contracts entered into by the Company to the date hereof which are currently in effect and considered to be currently material:

1. Agency Agreement dated ●, 2011;
2. Warrant Indenture dated ●, 2011;
3. Escrow Agreement dated ●, 2011;
4. Geologix Option Agreement dated July 8, 2010;
5. Concessions and Property Transfer Agreement dated July 12, 2010;
6. Fronteer Subscription Agreement dated July 22, 2010; and
7. Fronteer Option Agreement dated July 22, 2010.

Copies of the above material contracts and the Technical Reports may be inspected during distribution of the securities being offered under this Prospectus and for a period of 30 days thereafter during normal business hours at the Company's offices at 610 S. Rock Blvd., Sparks NV 89431 or at the offices of its legal counsel Irwin Lowy LLP, Suite 1010, 130 Adelaide Street West, Toronto, Ontario M5H 3P5.

## **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain 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, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the Prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price 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.



**SCHEDULE “A”**  
**CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

**Name**

There shall be a committee of the board of directors (the “**Board**”) of Rae-Wallace Mining Company (the “**Company**”) known as the Audit Committee (the “**Committee**”).

**Purpose**

The Committee has been established to assist the Board in fulfilling its oversight responsibilities and fiduciary obligations. The primary functions and areas of responsibility of the Committee are to:

- review, report and provide recommendations to the Board on the annual and interim consolidated financial statements and related Management’s Discussion and Analysis (“**MD&A**”);
- identify and monitor the management of the principal risks that could impact the financial reporting of the Company;
- make recommendations to the Board regarding the appointment, terms of engagement and compensation of the external auditor;
- monitor the integrity of the Company’s financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
- oversee the work of the external auditors engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Company;
- resolve disagreements between management and the external auditor regarding financial reporting;
- receive the report of the external auditors, who must report directly to the Committee; and
- provide an avenue of communication among the Company’s external auditors, management, and the Board.

**Composition and Qualifications**

All Committee members shall meet all applicable requirements prescribed under the *Business Corporations Act* (Ontario), as well as any requirements or guidelines prescribed from time to time under applicable securities legislation, including National Instrument 52-110 (“**NI 52-110**”) as amended, restated or superseded. The Committee shall be comprised of not less than three directors as determined from time to time by the Board. Subject to certain exceptions enumerated in NI 52-110, each member shall be an independent director who is free from any direct or indirect relationship that would, in the view of the Board, reasonably interfere with the exercise of the member’s independent judgment. While it is not necessary for members to have a comprehensive knowledge of generally accepted accounting principles and standards, all members of the Committee shall be “financially literate” so as to be able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the issues raised by the Company’s financial statements. A director who is not financially literate may be appointed to the Committee by the Board provided that such director becomes financially literate within a reasonable period following his or her appointment, and provided that the Board has determined that such appointment will not materially adversely affect the ability of the Committee to act independently.

Committee members shall be appointed by the Board. The Board shall designate the Chair of the Committee. If a Chair is not designated or present at any meeting, the members of the Committee may designate a Chair by majority vote. The Chair shall have responsibility for ensuring that the Committee fulfills its mandate and duties effectively.

Each member of the Committee shall continue to be a member until a successor is appointed, unless the member resigns, is removed or ceases to be a director. The Board may fill a vacancy at any time.

### **Meetings**

The Committee shall meet at least four times annually, or more frequently as circumstances dictate, and at least once in each fiscal quarter. A notification for each of the meetings shall be disseminated to Committee members two days prior to each meeting. A majority of the members of the Committee shall constitute a quorum for meetings.

An agenda shall be prepared by the Chair of the Committee as far in advance of each meeting as reasonably practicable. Minutes of all meetings of the Committee shall be prepared as soon as possible following the meeting and submitted for approval at or prior to the next following meeting.

The Committee should meet privately at least once per year with management of the Company, the Company's external auditors, and as a committee to discuss any matters that the Committee or any of these groups believe should be discussed.

### **Specific Responsibilities and Duties**

Specific responsibilities and duties of the Committee shall include, without limitation, the following:

#### *General Review Procedures*

1. Review and reassess the adequacy of this Charter at least annually and submit any proposed amendments to the Board for approval.
2. Review the Company's annual audited financial statements, related MD&A, and other documents prior to filing or distribution of such documents or issuing a press release in respect of the financial statements and MD&A. Review should include discussion with management and external auditors of significant issues regarding accounting principles, practices, and significant management estimates and judgments.
3. Annually, in consultation with management and external auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control and report such exposures. Review significant findings prepared by the external auditors and the internal auditing department together with management's responses.
4. Review the effectiveness of the overall process for identifying the principal risks affecting financial reporting and provide the Committee's views to the Board of Directors.
5. Review with financial management and the external auditors the Company's quarterly financial results, related MD&A and other documents prior to the filing or distribution of such documents or issuing a press release in respect of the financial statements and MD&A. Discuss any significant changes to the Company's accounting principles. The Chair of the Committee may represent the entire Committee for purposes of this review.

#### *External Auditors*

6. The external auditors are ultimately accountable to the Committee, as representatives of the shareholders. The external auditors must report directly to the Committee, who shall review the independence and performance of the auditors and annually recommend to the Board the appointment of the external auditors or approve any discharge of auditors when circumstances warrant. The Committee shall approve the compensation of the external auditors.

7. The Committee must approve all non-audit and non-tax services to be provided to the Company or its subsidiary entities.
8. On an annual basis, the Committee should review and discuss with the external auditors all significant relationships they have with the Company that could impair the auditors' independence.
9. Review the external auditors' audit plan and discuss and approve the audit scope, staffing, locations, reliance upon management, and general audit approach.
10. Prior to releasing the year-end earnings, discuss the results of the audit with the external auditors. Discuss any matters that are required to be communicated to audit committees in accordance with the standards established by the Canadian Institute of Chartered Accountants.
11. Consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in the Company's financial reporting.

#### *Legal Compliance*

12. On at least an annual basis, review with the Company's counsel any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations and inquiries received from regulators or governmental agencies.

#### *Other Miscellaneous Responsibilities*

13. Annually assess the effectiveness of the Committee against its mandate and report the results of the assessment to the Board.
14. Prepare and disclose a summary of the mandate to shareholders.
15. Perform any other activities consistent with this mandate, the Company's by-laws and governing law, as the Committee or the Board deems necessary or appropriate.

### **Authority**

The Committee shall have the authority to:

1. delegate approval-granting authority to pre-approve non-audit services by the external auditor to one or more of its members;
2. engage independent counsel and other advisors as it determines necessary to carry out its duties;
3. set and pay the compensation for any advisors employed by the Committee; and
4. communicate directly with the external auditors.

### **Reporting**

The Committee shall report its deliberations and discussions regularly to the Board and shall submit to the Board the minutes of its meetings.

### **Resources**

The Committee shall have full and unrestricted access to all of the Company's books, records, facilities and personnel as well as the Company's external auditors and shall have the authority, in its sole discretion, to conduct any investigation appropriate to fulfilling its responsibilities. The Committee shall further have the authority to retain, at the Company's expense, such special legal, accounting or other consultants or experts as it deems

necessary in the performance of its duties and to request any officer or employee of the Company or the Company's external counsel or auditors to attend a meeting of the Committee.

**Limitation on the Oversight Role of the Committee**

Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all members of the Board are subject.

Each member of the Committee shall be entitled, to the fullest extent permitted by law, to rely on the integrity of those persons and organizations within and outside the Company from whom he or she receives information, and the accuracy of the information provided to the Company by such persons or organizations.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable rules and regulations, each of which is the responsibility of management and the Company's external auditors.

**SCHEDULE "B"**  
**FINANCIAL STATEMENTS**

# **Rae Wallace Mining Company**

**(An exploration stage company)**

## **Unaudited Consolidated Financial Statements**

**For the three and nine month period ended  
March 31, 2011**

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**CONSOLIDATED BALANCE SHEETS**  
*(expressed in U.S. Dollars)*

	March 31, 2011 <i>(unaudited)</i>	June 30, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash (Note 3)	\$ 393,862	\$ 51,100
Taxes recoverable (Note 12)	53,079	3,982
Prepaid expenses and other current assets	37,008	5,904
<b>TOTAL CURRENT ASSETS</b>	<b>483,949</b>	<b>60,986</b>
<b>PROPERTY AND EQUIPMENT:</b>		
Equipment, net (Note 4)	31,977	13,518
Mining properties (Note 5)	242,932	147,500
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>274,909</b>	<b>161,018</b>
<b>TOTAL ASSETS</b>	<b>\$ 758,858</b>	<b>\$ 222,004</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 3,760	\$ 26,583
Accrued expenses	28,505	18,554
Note payable (Note 11)	-	100,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>32,265</b>	<b>145,137</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.01 par value; 100,000,000 shares authorized, 19,588,500 and 13,695,500 shares issued and outstanding, respectively	195,885	136,955
Additional paid-in capital (Note 6)	3,092,138	649,348
Accumulated deficit prior to exploration stage	(6,432)	(6,432)
Accumulated deficit during exploration stage	(2,554,998)	(1,703,004)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>726,593</b>	<b>76,867</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 758,858</b>	<b>\$ 222,004</b>

See accompanying notes and independent accountant's review report.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**CONSOLIDATED BALANCE SHEETS**  
(expressed in U.S. Dollars)

	March 31, 2011 (unaudited)	June 30, 2010
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash (Note 3)	\$ 393,862	\$ 51,100
Taxes recoverable (Note 12)	53,079	3,982
Prepaid expenses and other current assets	37,008	5,904
TOTAL CURRENT ASSETS	<u>483,949</u>	<u>60,986</u>
PROPERTY AND EQUIPMENT:		
Equipment, net (Note 4)	31,977	13,518
Mining properties (Note 5)	242,932	147,500
TOTAL PROPERTY AND EQUIPMENT	<u>274,909</u>	<u>161,018</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>758,858</u></b>	<b>\$ <u>222,004</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,760	\$ 26,583
Accrued expenses	28,505	18,554
Note payable (Note 11)	-	100,000
TOTAL CURRENT LIABILITIES	<u>32,265</u>	<u>145,137</u>
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.01 par value; 100,000,000 shares authorized, 19,588,500 and 13,695,500 shares issued and outstanding, respectively	195,885	136,955
Additional paid-in capital (Note 6)	3,092,138	1,649,348
Accumulated deficit prior to exploration stage	(6,432)	(6,432)
Accumulated deficit during exploration stage	(2,554,998)	(1,703,004)
TOTAL STOCKHOLDERS' EQUITY	<u>726,593</u>	<u>76,867</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ <u>758,858</u></b>	<b>\$ <u>222,004</u></b>

See accompanying notes and independent accountant's review report



**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(expressed in U.S. Dollars)

	Three months ended		Nine months ended		Period from February 15, 2007 (Inception of Exploration Stage) to March 31, 2011 (unaudited)
	(unaudited)		(unaudited)		
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010	
<b>REVENUES</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>OPERATING EXPENSES:</b>					
Salaries & benefits	70,184	43,825	238,665	118,482	706,158
Consulting fees	101,716	69,134	267,911	179,304	639,420
Land payments & exploration	15,356	5,187	45,528	36,499	304,595
Promotion and travel	11,605	-	29,296	-	29,296
Director fees	-	24,000	-	27,000	27,000
Professional fees	14,617	15,046	70,317	42,195	231,843
Other general and administrative expenses	76,480	13,559	203,430	37,990	623,396
<b>TOTAL OPERATING EXPENSES</b>	<b>289,958</b>	<b>170,751</b>	<b>855,147</b>	<b>441,470</b>	<b>2,561,708</b>
<b>LOSS FROM OPERATIONS</b>	<b>(289,958)</b>	<b>(170,751)</b>	<b>(855,147)</b>	<b>(441,470)</b>	<b>(2,561,708)</b>
<b>OTHER INCOME (LOSS):</b>					
Interest income	-	505	-	2,238	34,407
Gain on sale of vehicle	2,947	-	2,947	-	2,947
Impairment of mineral rights	-	-	-	-	(31,250)
Foreign exchange gain	3,271	-	206	-	606
<b>TOTAL OTHER INCOME</b>	<b>6,218</b>	<b>505</b>	<b>3,153</b>	<b>2,238</b>	<b>6,710</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(283,740)</b>	<b>(170,246)</b>	<b>(851,994)</b>	<b>(439,232)</b>	<b>(2,554,998)</b>
<b>INCOME TAX EXPENSE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET LOSS</b>	<b>\$ (283,740)</b>	<b>\$ (170,246)</b>	<b>\$ (851,994)</b>	<b>\$ (439,232)</b>	<b>(2,554,998)</b>
<b>NET LOSS PER SHARE AVAILABLE TO COMMON</b>					
STOCKHOLDERS, BASIC AND DILUTED	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.03)	
<b>WEIGHTED AVERAGE NUMBER</b>					
<b>OF COMMON SHARES OUTSTANDING,</b>					
<b>BASIC AND DILUTED</b>	<b>19,588,500</b>	<b>13,673,122</b>	<b>17,628,163</b>	<b>12,987,323</b>	

See accompanying notes and independent accountant's review report

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(expressed in U.S. Dollars)

	Three months ended		Nine months ended		Period from February 15, 2007 (Inception of Exploration Stage) to March 31, 2011 (unaudited)
	(unaudited)		(unaudited)		
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net loss	\$ (283,740)	\$ (170,246)	\$ (851,994)	\$ (439,232)	(2,554,998)
Adjustments to reconcile net loss to net cash used by operating activities:					
Depreciation expense	1,157	1,292	5,513	3,877	18,045
Impairment of mineral rights	-	-	-	-	173,001
Gain on sale of vehicle	(2,947)	-	(2,947)	-	(2,947)
Foreign exchange	223	-	(1,504)	-	(1,582)
Common stock issued for directors' fees (Note 6)	-	-	-	-	9,000
Common stock issued for professional services (Note 6)	-	5,000	-	87,500	123,500
Share based compensation (Note 7)	23,720	59,000	62,000	59,000	265,000
Changes in assets and liabilities:					
Prepaid expenses and other current assets	(33,540)	(12,543)	(31,124)	(10,240)	(36,978)
Taxes and other receivables	295,410	-	(49,039)	-	(52,968)
Accounts payable and accrued expenses	(38,989)	17,519	(12,860)	1,084	31,120
Net cash used by operating activities	<u>(38,706)</u>	<u>(99,978)</u>	<u>(881,955)</u>	<u>(298,011)</u>	<u>(2,029,807)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Purchase of equipment	(1,173)	-	(34,470)	-	(60,521)
Proceeds from sale of equipment	13,500	-	13,500	-	13,500
(Purchase) proceeds from option of mineral rights (Note 4)	-	(30,000)	155,967	(30,000)	(9,533)
Net cash provided by (used by) investing activities	<u>12,327</u>	<u>(30,000)</u>	<u>134,997</u>	<u>(30,000)</u>	<u>(56,554)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Forgiveness of shareholder note payable	-	-	-	-	6,000
Payment of promissory note	-	-	(100,000)	-	-
Proceeds from issuances of stock, net	-	-	1,189,720	-	2,474,180
Net cash provided by financing activities	<u>-</u>	<u>-</u>	<u>1,089,720</u>	<u>-</u>	<u>2,480,180</u>
Net increase (decrease) in cash and cash equivalents	(26,379)	(129,978)	342,762	(328,011)	393,819
<b>CASH AT BEGINNING OF PERIOD</b>	<u>420,241</u>	<u>335,412</u>	<u>51,100</u>	<u>533,445</u>	<u>43</u>
<b>CASH AT END OF PERIOD</b>	<u>\$ 393,862</u>	<u>\$ 205,434</u>	<u>\$ 393,862</u>	<u>\$ 205,434</u>	<u>393,862</u>
<b>NON-CASH FINANCING AND INVESTING ACTIVITIES:</b>					
Common stock issued for mineral rights	\$ -	\$ -	\$ 250,000	\$ -	405,000

See accompanying notes and independent accountant's review report

**RAE-WALLACE MINING COMPANY**

(An Exploration Stage Company)

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

(expressed in U.S. Dollars)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit prior to Exploration Stage	Deficit Accumulated During Exploration Stage	Total Stockholders' Equity
	Shares	Amount				
Balance, June 30, 2008	11,855,900	\$ 118,559	\$ 1,370,244	\$ (6,432)	\$ (392,644)	\$ 1,089,727
Common stock issued for professional services	240,000	2,400	9,600	-	-	12,000
Vested portion of stock options granted	-	-	5,000	-	-	5,000
Net loss	-	-	-	-	(503,708)	(503,708)
Balance, June 30, 2009	12,095,900	\$ 120,959	\$ 1,384,844	\$ (6,432)	\$ (896,352)	\$ 603,019
Common stock issued for professional services	1,600,000	16,000	71,500	-	-	87,500
Correction of shares issued and outstanding	(400)	(4)	4	-	-	-
Vested portion of stock options granted	-	-	193,000	-	-	193,000
Net loss	-	-	-	-	(806,652)	(806,652)
Balance, June 30, 2010	13,695,500	\$ 136,955	\$ 1,649,348	\$ (6,432)	\$ (1,703,004)	\$ 76,867
Common stock issued for mineral rights	1,000,000	10,000	199,000	-	-	209,000
Warrants issued for mineral rights	-	-	41,000	-	-	41,000
Common stock on units issued for cash at \$0.25 per unit	2,000,000	20,000	401,000	-	-	421,000
Warrants on units issued for cash at \$0.25 per unit	-	-	79,000	-	-	79,000
Common stock on units issued for cash at \$0.25 per unit, net of offering costs	2,893,000	28,930	442,790	-	-	471,720
Warrants on units issued for cash at \$0.25 per unit, net of offering costs	-	-	216,000	-	-	216,000
Broker warrants on units issued for cash	-	-	2,000	-	-	2,000
Vested portion of stock options granted	-	-	62,000	-	-	62,000
Net loss (unaudited)	-	-	-	-	(851,994)	(851,994)
Balance, March 31, 2011 (unaudited)	<u>19,588,500</u>	<u>\$ 195,885</u>	<u>\$ 3,092,138</u>	<u>\$ (6,432)</u>	<u>\$ (2,554,998)</u>	<u>\$ 726,593</u>

See accompanying notes and independent accountant's review report

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

***NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS:***

Rae-Wallace Mining Company (hereinafter “Rae-Wallace” or “the Company”) was incorporated under the laws of the State of Idaho in 1916. After several decades of dormancy, the Company reorganized in 1997 as an exploration stage company focused on evaluating, acquiring and exploring mineral prospects with potential for economic deposits of gold and silver.

In 1998, the investor group controlling Rae-Wallace sold their entire interest to Silver Trend Mining Company for 1,500,000 shares of Silver Trend common stock. In 1999, Silver Trend sold the Company to a private investment group, which subsequently conveyed proportional interests to individual investors. In January 2007, the Company underwent a change of control with a new management group joining the Company. The Company’s fiscal year-end is June 30.

On February 8, 2010, the Company incorporated Rae Wallace Peru a wholly owned Peruvian subsidiary. Rae Wallace Peru was incorporated to hold the Company’s Peruvian exploration properties.

***NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:***

- a. *Basis of Presentation* – This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.
- b. *Principles of Consolidation* – The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary: Rae Wallace Peru. All inter-company transactions and balances have been eliminated in these consolidated financial statements.
- c. *Exploration Stage* – The Company has been in the exploration stage since February 2007. At that time the company began the process of acquiring new mining properties. The Company is primarily engaged in the acquisition, exploration and development of natural resource properties. Upon establishing the existence of proven reserves in one of its properties, the Company plans to actively prepare the site for extraction and enter a development stage.
- d. *Mineral Properties, Exploration and Evaluation Costs* – Mineral property acquisition costs are capitalized. Exploration and evaluation expenditures for each property are expensed as incurred, unless such costs are expected to be recovered through successful development and exploration of the property or, alternatively, by its sale.

Although the Company has taken steps to verify title to its mining properties, these procedures do not guarantee the Company’s title. Such mining properties may be subject to prior undetected agreements or transfers, and title may be affected by such defects.

- e. *Going Concern* – As shown in the accompanying financial statements, the Company has no revenues and has incurred an accumulated deficit of \$2,554,998 from inception through March 31, 2011. These factors raise substantial doubt about the Company’s ability to continue as a going concern. The financial statements do not

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

***NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued):***

include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and/or upon obtaining additional financing. Management plans to raise cash from public or private debt or equity financing on an as needed basis and in the longer term, to generate revenues from the acquisition, exploration and development of mineral interests, if found. Should the Company be unable to raise capital through any of these avenues, its business, financial position, results of operations and cash flow will likely be materially adversely impacted. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. An estimated \$1,000,000 is believed necessary to continue operations and increase development through the next twelve months.

- f. *Cash Equivalents* – For the purposes of the statement of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents in two financial institutions. Balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 for cash held in the United States of America and insured by the Canada Deposit Insurance Corporation up to \$100,000 for cash held in Canada.
- g. *Fair Value of Financial Instruments* – The Company's financial instruments include cash, accounts payable, and accrued expenses, and are carried at fair value.
- h. *Estimates and Assumptions* – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions and may have a material effect on the Company's reported financial position and results of operations.
- i. *Review of Carrying Value of Mining Properties for Impairment* – The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment the Company recognized impairment of mining properties \$31,250 and \$71,500 for the years ended June 30, 2010 and 2009, respectively.
- j. *Provision for Taxes* – Income taxes are provided based upon the liability method of accounting. Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

*NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued):*

- k. *Revenue Recognition* – The Company will recognize revenue from sales when there is persuasive evidence that an arrangement exists, services have been rendered, the seller’s price to the buyer is determinable, and collectability is reasonably assured.
- l. *Stock-based compensation* – The Company follows the guidance of ASC 718 – Stock Compensation, which requires the measurement of the cost of employee services received in exchange for an award of an equity instrument on the grant-date fair value of the award.

Under the guidance of ASC 718, the Company is required to select a valuation technique or option-pricing model that meets the criteria as stated in the standard. At present, the Company is continuing to use the Black-Scholes model, which requires the input of some subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (“expected life”), the estimated volatility of the Company’s common stock price over the expected term (“volatility”), the risk-free interest rate and the dividend yield. Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation.

- m. *Net Loss per Share* – Basic earnings per share (“EPS”) is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants, and other convertible securities.

At March 31, 2011 and 2010, the effect of the Company’s outstanding options and common stock equivalents would have been anti-dilutive. Accordingly, only basic EPS is presented.

- n. *Capital Assets*

Capital assets are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method at the following annual rates:

Furniture and fixtures	5 years
Vehicles	5 years
Equipment	10 years

- o. *Foreign Currency Translation* – The functional currency for the Company's operations is the U.S. dollar. All monetary assets and liabilities where the functional currency is not the U.S. dollar are translated at current exchange rates at each balance sheet date and the resulting adjustments are included in a separate line item under other income (expense). Non monetary assets and liabilities are translated at historical exchange rates. Revenue and expense in foreign currencies are translated at the weighted-average exchange rates for the period.
- p. *Subsequent events* – The Company has evaluated events and transactions for potential recognition or disclosure in its consolidated financial statements through June 24, 2011.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

*NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued):*

- q. *New accounting pronouncements* – In September 2006, the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) was updated to establish a framework for measuring fair value and expand disclosure about fair value measurements, but does not require any new fair value measurements.

Effective October 1, 2008, the Company adopted the updated guidance for our financial assets and financial liabilities without a material effect on the Company’s consolidated financial statements. In February 2008, the FASB issued an update to the guidance which delayed the effective date for non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. Effective October 1, 2009, the Company adopted the updated guidance for non-financial assets and non-financial liabilities without a material effect on the Company’s consolidated financial statements.

In June 2009, the ASC guidance for consolidation accounting (topic 810) was updated to require an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This statement is effective for fiscal years beginning after Nov. 15, 2009. Accordingly, the Company will adopt this updated guidance in fiscal year 2011 and is currently evaluating the impact of adopting this guidance on the consolidated financial statements.

In January 2010, the FASB issued ASC No. 2010-06, “*Fair Value Measurement and Disclosures (Topic 820): Improving Disclosure and Fair Value Measurements*”, which requires that purchases, sales, issuances, and settlements for Level 3 measurements be disclosed. ASC No. 2010-06 is effective for its fiscal quarter beginning after 15 December 2010. The adoption of ASC No. 2010-06 impacted disclosures only on the Company’s consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-11, “*Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives*”. ASU No. 2010-11 clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Specifically, only one form of embedded credit derivative qualifies for the exemption – one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in ASU No. 2010-11 are effective for each reporting entity at the beginning of its first fiscal quarter beginning after 15 June 2010. Early adoption is permitted at the beginning of each entity’s first fiscal quarter beginning after 5 March 2010. The adoption of ASC No. 2010-11 is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2010, the FASB issued ASC No. 2010-09, “*Amendments to Certain Recognition and Disclosure Requirements*”, which eliminates the requirement for SEC filers to disclose the date through which an entity has evaluated subsequent events. ASC No. 2010-09 is effective for its fiscal quarter beginning after 15 December 2010. The adoption of ASC No. 2010-06 will not have a material impact on the Company’s consolidated financial statements.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

**NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS:**

Effective July 1, 2008, for financial assets and liabilities, and July 1, 2009 for non-financial assets and liabilities, the Company has adopted expanded disclosure requirements to include the following information for each major category of assets and liabilities that are measured at fair value on a recurring or non recurring basis:

- a. the fair value measurement;
- b. the level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3);
- c. for fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:
  - 1) total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities);
  - 2) the amount of these gains or losses attributable to the change in unrealized gains or losses relating to those assets liabilities still held at the reporting period date and a description of where those unrealized gains or losses are reported;
  - 3) purchases, sales, issuances, and settlements (net); and
  - 4) transfers in and/or out of Level 3.

**NOTE 4 – CAPITAL ASSETS:**

As at	March 31, 2011		June 30, 2010	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Furniture and fixtures	207	57	207	42
Equipment	21,045	1,314	-	-
Vehicles	13,694	1,598	25,844	12,491
	\$ 34,946	\$ 2,969	\$ 26,051	\$ 12,533
Net book value	\$ 31,977		\$ 13,518	



**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

**NOTE 5 – MINERAL RIGHTS:**

	March 31, 2011			
	Opening Balance	Additions	Write-Downs	Net
	(\$)	(\$)	(\$)	(\$)
EZ Property	25,000	-	-	25,000
ES Property	25,000	-	-	25,000
LAM Property	-	-	-	-
Shag Property	-	-	-	-
Peru Property	97,500	95,432	-	192,932
	<u>147,500</u>	<u>95,432</u>	<u>-</u>	<u>242,932</u>

	June 30, 2010			
	Opening Balance	Additions	Write-Downs	Net
	(\$)	(\$)	(\$)	(\$)
EZ Property	25,000	-	-	25,000
ES Property	25,000	-	-	25,000
LAM Property	18,750	-	18,750	-
Shag Property	12,500	-	12,500	-
Peru Property	-	97,500	-	97,500
	<u>81,250</u>	<u>97,500</u>	<u>31,250</u>	<u>147,500</u>

**EZ Property:**

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 54 unpatented lode mining claims on the EZ Project located in White Pine County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000.

**ES Property:**

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 26 unpatented lode mining claims on the ES Project located in White Pine County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000.

**LAM Property:**

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 28 unpatented lode mining claims on the LAM Project located in Eureka County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000. Prior to June 30, 2008 the Company determined that it would reduce the number of claims held to 21 to reduce holding costs, and 7 of the claims were dropped subsequent to June 30, 2008. One quarter of the capitalized costs (\$6,250) associated with the project were charged against Land payments and fees in the statement of operations for the year ended June 30, 2008. During the year ended June 30, 2010 this project was dropped by the Company and the \$18,750 in capitalized costs associated with the project were charged against the statement of operations.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

*NOTE 5 – MINERAL PROPERTIES, (continued)*

**Shag Property:**

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 32 unpatented lode mining claims on the SHAG Project located in Lander County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000. During the year ended June 30, 2008 the group was reduced to a total of 16 claims to reduce holding costs. One half of the capitalized costs (\$12,500) associated with the project were charged against Land payments and fees in the statement of operations for the year ended June 30, 2008. During the year ended June 30, 2010 this project was dropped by the Company and the \$18,750 in capitalized costs associated with the project were charged against the statement of operations.

**Peru Property:**

On March 25, 2010 – The Company entered into a letter of intent agreement with Geologix Explorations Inc. to acquire the right to earn a 100% interest in eight of the Company's Peruvian properties. The option agreement covers the Liscay, Largatija, Lachoc, Mirko, San Felipe, Sura, Toro Blanco and Cayhua properties (the "Properties") which are currently owned 100% by Geologix. Portions of the Liscay, Largatija, Lachoc, and Mirko properties are subject to a 2% precious metals NSR and a 1% base metals NSR payable to Newmont Peru S.A. Pursuant to the terms of the option agreement, in order to earn a 100% interest in the Properties, the Company is required to:

- 1) Pay Geologix US\$30,000 on signing of the Letter of Intent ("LOI") (payment delivered March 8, 2010);
- 2) Pay Geologix US\$67,500 on or before May 31, 2010. Geologix further agrees to use this payment to renew the Properties' concessions for 2010 (paid June 8, 2010);
- 3) Deliver to Geologix, shares of the Company valued at US\$250,000, distributed, as follows:
  - (i) 500,000 common shares of the Company to be delivered on or before May 31, 2010, with each share to be accompanied by a half warrant, with each full warrant entitling Geologix the right to purchase one additional common share of the Company for a period of two years from the date the shares are issued; (delivered)
  - (ii) An additional payment of the Company shares and warrants as described in (i) above, shall be delivered within 10 days after the Company completes a private placement or public financing, but no later than September 30, 2010, such that the total value of shares delivered totals US\$250,000 (delivered)

Upon completion of the above exchanges and payments, the Company shall own the Properties, and Geologix shall execute whatever documents are required to effectuate the exchange of title to the Properties to the Company.

If the Company or any of its affiliates should sell, lease, transfer, convey or otherwise disposes of any of the properties or enters into an option or agreement to do any of the same, or if it grants a royalty on the properties, or any portion thereof, to a third party before March 8, 2011, the Company shall pay Geologix 20% of the proceeds when received from such transaction.

The Company is not obligated to any work commitment on the properties.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

*NOTE 5 – MINERAL PROPERTIES, (continued)*

On July 22, 2010, the Company entered into an option agreement with Fronteer Gold under which Fronteer Gold can earn a 51% interest in any two of the Peru projects held by the Company by making a one time payment of \$150,000 and incurring expenditures on the properties of three times the previous expenditures on the projects.

*NOTE 6 – COMMON STOCK:*

*Private Placement*

On December 7 and 30, 2010, the Company completed a private placement of 2,893,000 units at a price of \$0.25 per unit for proceeds of \$723,250. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one share of the Company at a price of \$0.50 expiring 2 years after a going public transaction. The fair value of the warrants was estimated on their grant date using the Black-Scholes Option Price Model. The following assumptions were made in estimating fair value: risk-free interest rate of 0.66%; volatility of 100.0%; expected life of 2.5 years; dividend yield of zero. The options were valued at \$0.075 per share, or \$216,000.

The Company also paid cash commissions of \$10,400 and issued 13,000 broker warrants in connection with the private placement, with a total offering cost of \$35,530. Each broker warrant is exercisable into one unit at a price of \$0.25. Each unit consists of one common share and one common share purchase warrant with the same term as the warrants above. The fair value of the broker warrants was estimated on their grant date using the Black-Scholes Option Price Model. The following assumptions were made in estimating fair value: risk-free interest rate of 0.66%; volatility of 100.0%; expected life of 2.5 years; dividend yield of zero. The options were valued at \$0.15 per share, or \$2,000.

On July 22, 2010, the Company completed a private placement of 2,000,000 units at a price of \$0.25 per unit for proceeds of \$500,000. Each unit consists of one common share and one half common share purchase warrant. Each warrant is exercisable into one share of the Company at a price of \$0.375 expiring on September 30, 2012. The fair value of the warrants was estimated on their grant date using the Black-Scholes Option Price Model. The following assumptions were made in estimating fair value: risk-free interest rate of 0.63%; volatility of 100.0%; expected life of 2.16 years; dividend yield of zero. The warrants were valued at \$0.079 per share, or \$79,000.

*Stock Issued for Mineral Rights*

On September 30, 2010, the Company issued 1,000,000 units for the acquisition of several mining properties at a value of \$0.25 per unit. Each unit consists of one common share and one half common share purchase warrant. Each warrant is exercisable into one share of the Company at a price of \$0.375 expiring on September 30, 2012. The fair value of the warrants was estimated on their grant date using the Black-Scholes Option Price Model. The following assumptions were made in estimating fair value: risk-free interest rate of 0.60%; volatility of 100.0%; expected life of 2.25 years; dividend yield of zero. The options were valued at \$0.081 per share, or \$41,000.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

*NOTE 6 – COMMON STOCK, (continued)*

*Stock Issued for Services*

During the year ended June 30, 2010, the Company issued 50,000 and 1,550,000 shares, respectively of common stock. The 50,000 shares issued during the year ended June 30, 2010 were issued at a value of \$0.20 per share as compensation for consulting services. The remaining 1,550,000 shares issued during the year ended June 30, 2010 were issued at a value of \$0.05 per share as compensation for management services.

**NOTE 7 – STOCK OPTIONS:**

In January 2007, the Company's board adopted the 2007 Equity Incentive Plan in order to provide incentives to directors, employees and others rendering services to the Company. The Plan authorizes the granting of up to 10,000,000 stock options to employees, directors and consultants.

In November 2007, 1,500,000 options were issued to directors and officers of the Company. The options have an exercise price of \$0.20, with one third vesting at the time of grant, one third vesting in November 2008 and the remaining third vesting in November 2009. These options expire after eight years. The fair value of the options granted was estimated on their grant date using the Black-Scholes Option Price Model. The following assumptions were made in estimating fair value: risk-free interest rate of 3.71%; volatility of 90.0%; expected life of 3 years; dividend yield of zero. The options were valued at \$0.01 per share, or \$15,000, \$5,000 of which vested during fiscal 2010.

In January 2010, 450,000 options were issued to directors, officers and consultants of the Company. The options have an exercise price of \$0.20, and vested immediately at the time of grant. These options expire after five years. The fair value of the options granted was estimated on their grant date using the Black-Scholes Option Price Model.

The following assumptions were made in estimating fair value: risk-free interest rate of 2.39-2.55%; volatility of 100.0%; expected life of 5 years; dividend yield of zero. The options were valued at \$0.15 per share, or \$68,000.

In January 2010, the Company received approval to extend the life of options issued to officers and directors of the Company by five years with the revised expiry date being November 2015. The weighted-average fair value of those amended options issued during the year ended June 30, 2010 was \$0.15 per option resulting in a total fair value of amended options issued of \$225,000. The fair value of the options cancelled immediately before the issuance was \$105,000 and the additional stock-based compensation recorded regarding the amended options was \$120,000.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

*NOTE 7 – STOCK OPTIONS, (continued)*

In October 2010, 810,000 options were issued to directors, officers and consultants of the Company. The options have an exercise price of \$0.25, and vested 1/3 immediately and 1/3 at each of October 2011 and 2012. These options expire after five years. The fair value of the options granted was estimated on their grant date using the Black-Scholes Option Price Model. The Company recognizes compensation expense using the graded vesting attribution method.

The following assumptions were made in estimating fair value: risk-free interest rate of 1.2%; volatility of 100.0%; expected life of 5 years; dividend yield of zero. The options were valued at \$0.14 per share, or \$116,000. Stock based compensation expense based on the vested portion amounted to \$62,000, with the remaining \$54,000 to be expensed through to fiscal 2012.

The following is a summary of the Company's options issued under the 2007 Equity Incentive Plan:

	Shares		Weighted Average Exercise Price
Outstanding at June 30, 2010	1,650,000	\$	0.20
Granted	810,000		0.25
Expired	-		-
Outstanding at March 31, 2011	2,460,000	\$	0.22
Exercisable at March 31, 2011	1,920,000	\$	0.22

The weighted average remaining contractual term of options both outstanding and exercisable at March 31, 2011 was 4.44 years.

*NOTE 8 – WARRANTS*

Month of Expiry	No. of Warrants	Exercise Price (\$)
September 30, 2012	1,500,000	0.375
June 7, 2013	1,698,000	0.50
June 30, 2013 – broker warrants	13,000	0.25
June 30, 2013	1,208,000	0.50
	4,419,000	

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

**NOTE 8 – WARRANTS, (continued)**

The following table summarizes the assumptions used with the Black-Scholes valuation model during the nine month period ended March 31, 2011:

Grant date	July 9, 2010	July 22, 2010	December 7, 2010	December 30, 2010	December 30, 2010	Totals
No. of warrants	500,000	1,000,000	1,698,000	1,208,000	26,000	4,419,000
Exercise price	\$ 0.375	\$ 0.375	\$ 0.50	\$ 0.50	\$ 0.25	
Expected life in years	2.25	2.16	2.5	2.5	2.5	
Volatility	100%	100%	100%	100%	100%	
Risk-free interest rate	0.6%	0.63%	0.54%	0.66%	0.66%	
Dividend yield	-	-	-	-	-	
Fair value of warrants	\$41,000	\$ 79,000	\$ 127,000	\$ 89,000	\$ 2,000	\$ 338,000

**NOTE 9 – INCOME TAXES:**

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating losses and tax credit carryforwards. As at March 31, 2011 and June 30, 2010, the Company had a net deferred tax asset calculated at an expected rate of 34% for losses incurred in the United States of America and 30% for losses incurred in Peru, principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been recorded at March 31, 2011 and June 30, 2010.

The significant components of deferred income tax assets are:

	March 31, 2011	June 30, 2010
Net operating loss carryforwards	\$ 778,200	\$ 509,600
Temporary differences		
Non-deductible stock options	62,000	67,300
Depreciation	(5,700)	(5,300)
Deferred tax asset	<u>\$ 834,500</u>	<u>\$ 571,600</u>
Deferred tax asset valuation allowance	<u>\$ (834,500)</u>	<u>\$ (571,600)</u>

The Company's deferred tax assets consist of net operating loss carry-forwards that are available, within statutory annual limits, to offset future taxable income, if any calculated at a 34% (and 30% for Peru) tax rate. These deferred tax assets which were \$834,500 and \$571,600 at March 31, 2011 and June 30, 2010, respectively, were fully offset by valuation allowances for financial reporting purposes. The Company's net operating loss carryforwards of approximately \$2,342,000 will expire in the years June 30, 2018 through June 30, 2031. The valuation allowance increased \$262,900 from June 30, 2010 to March 31, 2011.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

***NOTE 9 – INCOME TAXES, (continued)***

The Tax Reform Act of 1986 substantially changed the rules relative to the use of net operating loss and general business credit carryforwards in the event of an “ownership change” of a corporation. Due to the change in ownership during 2007, the Company is restricted in the future use of net operating loss and tax credit carryforwards generated before the ownership change. As of June 30, 2010, this limitation is applicable to accumulated net operating losses of approximately \$6,000, which were incurred prior to the change of ownership.

Although the Company believes that its estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in the tax provisions. Ultimately, the actual tax benefits to be realized will be based upon future taxable earnings levels, which are very difficult to predict.

***NOTE 10 – COMMITMENTS AND CONTINGENCIES:***

The Company is engaged in mineral exploration and may become subject to certain liabilities as they relate to environmental cleanup of mining sites or other environmental restoration procedures as they relate to mineral mining and the operation thereof. Although the minerals exploration and mining industries are inherently speculative and subject to complex environmental regulations, at the date of these financial statements, the Company is not aware of any environmental issues or litigation relating to any of its current or former properties.

***NOTE 11 – NOTE PAYABLE:***

On May 28, 2010, the Company received a loan in the amount of \$100,000 through the issuance of a promissory note to Timberline Resources Corporation. The promissory note carried an interest rate of 12% calculated based on a 360 day year and was repayable on one lump sum payment on June 29, 2010. On June 29, 2010, the Company extended the repayment terms of the loan from June 29, 2010 to August 31, 2010, through payment of a \$500 extension fee.

The note and associated interest was repaid during the nine months ended March 31, 2011.

***NOTE 12 – TAXES RECOVERABLE:***

Taxes recoverable consist of VAT paid on expenditures incurred in Peru and Harmonized Sales Tax (“HST”) paid on expenditures incurred in Canada, which the Company is able to recover.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**  
**March 31, 2011**

**NOTE 13 – OPERATING SEGMENT REPORTING:**

Rae Wallace Mining Company is a gold exploration company. Rae Wallace’s major operations include the U.S. and Peru. The Company identifies its reportable segments as those consolidated operations that are currently engaged in the exploration for precious metals. Operations not actively engaged in the exploration for precious metals are aggregated at the corporate level for segment reporting purposes.

<b>For the period ended March 31,</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Net loss</b>		
U.S.	<b>464,131</b>	439,232
Peru	<b>387,863</b>	-
	<b>851,994</b>	439,232
<b>Capital expenditures</b>		
Peru	<b>119,349</b>	-
	<b>119,349</b>	-
<b>As at,</b>	<b>March 31, 2011</b>	<b>June 30, 2010</b>
<b>Total assets</b>		
U.S.	<b>406,323</b>	137,266
Peru	<b>352,535</b>	84,738
	<b>758,858</b>	222,004

**NOTE 14 – SUBSEQUENT EVENTS:**

On May 20, 2011, the Company completed a private placement of 2,970,000 units at \$0.25 per unit for proceeds of \$742,500. Each unit consists of one common share and one full purchase warrant. Each warrant is exercisable into one common share of the Company at \$0.35 expiring in thirty six months after a going public transaction.

On June 3, 2011, The Company completed a private placement of 390,000 units at \$0.25 per unit for proceeds of \$97,500. Each unit consists of one common share and one full purchase warrant. Each warrant is exercisable into one common share of the Company at \$0.35 expiring in thirty six months after a going public transaction.

On June 7, 2011, the Company issued an aggregate of 289,300 common shares to the holders of the liquidity entitlements in accordance with the terms of the December 2010 private placement and the certificates evidencing the liquidity entitlements. The Company was to complete a “liquidity event” by June 7, 2011, pursuant to the liquidity entitlement attached to each unit on the December 2010 private placement with each liquidity entitlement entitling the holder to one additional common share for each 10 units purchased under the December 2010 private placement if, by June 7, 2011, the Company did not complete a Liquidity Event.



# **Rae-Wallace Mining Company**

**(An exploration stage company)**

## **Consolidated Financial Statements**

**June 30, 2010**



Bank of America Financial Center  
601 W Riverside, Suite 430  
Spokane, WA 99201  
United States of America

Board of Directors  
Rae-Wallace Mining Company  
Coeur d'Alene, Idaho

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have audited the accompanying consolidated balance sheets of Rae-Wallace Mining Company (a development stage company) and subsidiary as of June 30, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended and for the period from February 15, 2007 (inception) to June 30, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rae-Wallace Mining Company and subsidiary as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended and for the period from February 15, 2007 (inception) to June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's significant operating losses raise substantial doubt about its ability to continue as a going concern. Management's plans regarding the resolution of this issue are also discussed in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

A handwritten signature in cursive script that reads "BehlerMick PS".

BehlerMick PS  
Spokane, Washington  
September 28, 2010



**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2010	June 30, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash (Note 3)	\$ 51,100	\$ 533,445
Taxes recoverable (Note 11)	3,982	
Prepaid expenses and other current assets	5,904	3,377
<b>TOTAL CURRENT ASSETS</b>	<u>60,986</u>	<u>536,822</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Equipment, net (Note 4)	13,518	18,522
Mining properties (Note 5)	147,500	81,250
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<u>161,018</u>	<u>99,772</u>
<b>TOTAL ASSETS</b>	<u>\$ 222,004</u>	<u>\$ 636,594</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 26,583	\$ 27,744
Accrued expenses	18,554	5,831
Note payable (Note 10)	100,000	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>145,137</u>	<u>33,575</u>
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.01 par value; 100,000,000 shares authorized, 13,695,500 and 12,095,900 shares issued and outstanding, respectively	136,955	120,959
Additional paid-in capital (Note 6)	1,649,348	1,384,844
Accumulated deficit prior to exploration stage	(6,432)	(6,432)
Accumulated deficit during exploration stage	(1,703,004)	(896,352)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>76,867</u>	<u>603,019</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 222,004</u>	<u>\$ 636,594</u>

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

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2010	June 30, 2009
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash (Note 3)	\$ 51,100	\$ 533,445
Taxes recoverable (Note 11)	3,982	-
Prepaid expenses and other current assets	5,904	3,377
<b>TOTAL CURRENT ASSETS</b>	<b>60,986</b>	<b>536,822</b>
PROPERTY AND EQUIPMENT:		
Equipment, net (Note 4)	13,518	18,522
Mining properties (Note 5)	147,500	81,250
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>161,018</b>	<b>99,772</b>
<b>TOTAL ASSETS</b>	<b>\$ 222,004</b>	<b>\$ 636,594</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 26,583	\$ 27,744
Accrued expenses	18,554	5,831
Note payable (Note 10)	100,000	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>145,137</b>	<b>33,575</b>
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.01 par value; 100,000,000 shares authorized, 13,695,500 and 12,095,900 shares issued and outstanding, respectively	136,955	120,959
Additional paid-in capital (Note 6)	1,649,348	1,384,844
Accumulated deficit prior to exploration stage	(6,432)	(6,432)
Accumulated deficit during exploration stage	(1,703,004)	(896,352)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>76,867</b>	<b>603,019</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 222,004</b>	<b>\$ 636,594</b>

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

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended		Period from February 15, 2007 (Inception of Exploration Stage) to June 30, 2010
	June 30, 2010	June 30, 2009	
<b>REVENUES</b>	\$ -	\$ -	\$ -
<b>OPERATING EXPENSES:</b>			
Salaries & benefits	236,541	148,156	467,493
Consulting fees	192,827	92,870	371,509
Land payments & fees	36,499	70,044	259,067
Director fees	-	-	17,000
Professional fees	79,373	48,179	161,526
Other general and administrative expenses	232,933	85,517	429,966
<b>TOTAL OPERATING EXPENSES</b>	<u>778,173</u>	<u>444,766</u>	<u>1,706,561</u>
<b>LOSS FROM OPERATIONS</b>	<u>(778,173)</u>	<u>(444,766)</u>	<u>(1,706,561)</u>
<b>OTHER INCOME (LOSS):</b>			
Interest income	2,371	12,558	34,407
Impairment of mineral rights	(31,250)	(71,500)	(31,250)
Foreign exchange gain	400	-	400
<b>TOTAL OTHER INCOME</b>	<u>(28,479)</u>	<u>(58,942)</u>	<u>3,557</u>
<b>LOSS BEFORE INCOME TAXES</b>	<u>(806,652)</u>	<u>(503,708)</u>	<u>(1,703,004)</u>
<b>INCOME TAX EXPENSE</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET LOSS</b>	<u>\$ (806,652)</u>	<u>\$ (503,708)</u>	<u>(1,703,004)</u>
<b>NET LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED</b>	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED</b>	<u>13,054,405</u>	<u>12,003,845</u>	

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

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended		Period from
	June 30, 2010	June 30, 2009	February 15, 2007 (Inception of Exploration Stage) to June 30, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (806,652)	\$ (503,708)	\$ (1,703,004)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation expense	5,210	5,168	12,532
Impairment of mineral rights	31,250	71,500	173,001
Foreign exchange	(78)	-	(78)
Common stock issued for directors' fees (Note 6)	-	-	9,000
Common stock issued for professional services (Note 6)	87,500	12,000	123,500
Share based compensation (Note 7)	193,000	5,000	203,000
Changes in assets and liabilities:			
Prepaid expenses and other current assets	(2,477)	79	(5,854)
Taxes recoverable	(3,929)	-	(3,929)
Accounts payable and accrued expenses	11,538	(18,623)	43,980
Net cash used by operating activities	<u>(484,638)</u>	<u>(428,584)</u>	<u>(1,147,852)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of equipment	(207)	-	(26,051)
Purchase of mineral rights (Note 4)	(97,500)	-	(165,500)
Net cash provided by (used by) investing activities	<u>(97,707)</u>	<u>-</u>	<u>(191,551)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Forgiveness of shareholder note payable	-	-	6,000
Proceeds from promissory note	100,000	-	100,000
Proceeds from issuances of stock, net	-	-	1,284,460
Net cash provided by financing activities	<u>100,000</u>	<u>-</u>	<u>1,390,460</u>
Net increase (decrease) in cash and cash equivalents	(482,345)	(428,584)	51,057
<b>CASH AT BEGINNING OF PERIOD</b>	<u>533,445</u>	<u>962,029</u>	<u>43</u>
<b>CASH AT END OF PERIOD</b>	<u>\$ 51,100</u>	<u>\$ 533,445</u>	<u>\$ 51,100</u>
<b>NON-CASH FINANCING AND INVESTING ACTIVITIES:</b>			
Common stock issued for mineral rights	\$ -	\$ -	<u>155,000</u>

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

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit prior to Exploration Stage	Deficit Accumulated During Exploration Stage	Total Stockholders' Equity
	Shares	Amount				
Balance, June 30, 2006	501,400	\$ 5,014	\$ 329	\$ (6,162)	\$ -	(819)
Common stock issued for cash at \$0.05 per share	2,000,000	\$ 20,000	\$ 80,000	\$ -	\$ -	100,000
Common stock issued to directors and employees	1,325,000	13,250	750	-	-	14,000
Common stock issued for mineral rights	100,000	1,000	4,000	-	-	5,000
Net loss	-	-	-	(270)	(64,202)	(64,472)
Balance, June 30, 2007	3,926,400	\$ 39,264	\$ 85,079	\$ (6,432)	\$ (64,202)	53,709
Forfeited common stock previously issued to directors	(500,000)	\$ (5,000)	\$ -	\$ -	\$ -	(5,000)
Forgiveness of shareholder payable	-	-	6,000	-	-	6,000
Vested portion of stock options granted	-	-	5,000	-	-	5,000
Common stock issued for professional services	480,000	4,800	19,200	-	-	24,000
Common stock issued for mineral rights	750,000	7,500	142,500	-	-	150,000
Common stock and warrants issued for cash at \$0.20 per unit, net of offering costs	7,199,500	71,995	1,112,465	-	-	1,184,460
Net loss	-	-	-	-	(328,442)	(328,442)
Balance, June 30, 2008	11,855,900	\$ 118,559	\$ 1,370,244	\$ (6,432)	\$ (392,644)	1,089,727
Common stock issued for professional services	240,000	2,400	9,600	-	-	12,000
Vested portion of stock options granted	-	-	5,000	-	-	5,000
Net loss	-	-	-	-	(503,708)	(503,708)
Balance, June 30, 2009	12,095,900	\$ 120,959	\$ 1,384,844	\$ (6,432)	\$ (896,352)	603,019
Common stock issued for professional services	1,600,000	16,000	71,500	-	-	87,500
Correction of shares issued and outstanding	(400)	(4)	4	-	-	-
Vested portion of stock options granted	-	-	193,000	-	-	193,000
Net loss	-	-	-	-	(806,652)	(806,652)
Balance, June 30, 2010	13,695,500	\$ 136,955	\$ 1,649,348	\$ (6,432)	\$ (1,703,004)	76,867

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

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

***NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS:***

Rae-Wallace Mining Company (hereinafter “Rae-Wallace” or “the Company”) was incorporated under the laws of the State of Idaho in 1916. After several decades of dormancy, the Company reorganized in 1997 as an exploration stage company focused on evaluating, acquiring and exploring mineral prospects with potential for economic deposits of gold and silver.

In 1998, the investor group controlling Rae-Wallace sold their entire interest to Silver Trend Mining Company for 1,500,000 shares of Silver Trend common stock. In 1999, Silver Trend sold the Company to a private investment group, which subsequently conveyed proportional interests to individual investors. In January 2007, the Company underwent a change of control with a new management group joining the Company. The Company’s fiscal year-end is June 30.

On February 8, 2010, the Company incorporated Rae Wallace Peru a wholly owned Peruvian subsidiary. Rae Wallace Peru was incorporated to hold the Company’s Peruvian exploration properties.

***NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:***

- a. *Basis of Presentation* – This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.
- b. *Principles of Consolidation* – The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary: Rae Wallace Peru. All inter-company transactions and balances have been eliminated in these consolidated financial statements.
- c. *Exploration Stage* – The Company has been in the exploration stage since February 2007. At that time the company began the process of acquiring new mining properties. The Company is primarily engaged in the acquisition, exploration and development of natural resource properties. Upon establishing the existence of proven reserves in one of its properties, the Company plans to actively prepare the site for extraction and enter a development stage.
- c. *Mineral Properties, Exploration and Evaluation Costs* – Mineral property acquisition costs are capitalized. Exploration and evaluation expenditures for each property is expensed as incurred, unless such costs are expected to be recovered through successful development and exploration of the property or, alternatively, by its sale.

Although the Company has taken steps to verify title to its mining properties, these procedures do not guarantee the Company’s title. Such mining properties may be subject to prior undetected agreements or transfers, and title may be affected by such defects.

- d. *Going Concern* – As shown in the accompanying financial statements, the Company has no revenues and has incurred an accumulated deficit of \$ 1,709,436 from inception through June 30, 2010. These factors raise substantial doubt about the Company’s ability to continue as a going concern. The financial statements do not



**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued):**

include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and/or upon obtaining additional financing. Management plans to raise cash from public or private debt or equity financing on an as needed basis and in the longer term, to generate revenues from the acquisition, exploration and development of mineral interests, if found. Should the Company be unable to raise capital through any of these avenues, its business, financial position, results of operations and cash flow will likely be materially adversely impacted. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. An estimated \$1,000,000 is believed necessary to continue operations and increase development through the next twelve months.

- e. *Cash Equivalents* – For the purposes of the statement of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents in two financial institutions. Balances are insured by the Federal Deposit Insurance Corporation up to \$250,000.
- f. *Fair Value of Financial Instruments* – The Company's financial instruments include cash, accounts payable, and accrued expenses, and are carried at fair value.
- g. *Estimates and Assumptions* – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions and may have a material effect on the Company's reported financial position and results of operations.
- h. *Review of Carrying Value of Mining Properties for Impairment* – The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment the Company recognized impairment of mining properties \$31,250 and \$71,500 for the years ended June 30, 2010 and 2009 respectively.
- i. *Provision for Taxes* – Income taxes are provided based upon the liability method of accounting. Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized. (see note 8)
- j. *Revenue Recognition* – The Company will recognize revenue from sales when there is persuasive evidence that an arrangement exists, services have been rendered, the seller's price to the buyer is determinable, and collectability is reasonably assured.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued):**

- k. *Stock-based compensation* – The Company follows the guidance of ASC 718 – Stock Compensation, which requires the measurement of the cost of employee services received in exchange for an award of an equity instrument on the grant-date fair value of the award.

Under the guidance of ASC 718, the Company is required to select a valuation technique or option-pricing model that meets the criteria as stated in the standard. At present, the Company is continuing to use the Black-Scholes model, which requires the input of some subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (“expected life”), the estimated volatility of the Company’s common stock price over the expected term (“volatility”), the risk-free interest rate and the dividend yield. Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation.

- l. *Net Loss per Share* – Basic earnings per share (“EPS”) is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants, and other convertible securities.

At June 30, 2010 and 2009, the effect of the Company’s outstanding options and common stock equivalents would have been anti-dilutive. Accordingly, only basic EPS is presented.

- m. *Capital Assets*

Capital assets are recorded at cost less accumulated amortization. Amortization is computed using the straight-line method at the following annual rates:

Furniture and fixtures	5 years
Vehicles	5 years

- n. *Foreign Currency Translation* – The functional currency for the Company's operations is the U.S. dollar. All monetary assets and liabilities where the functional currency is not the U.S. dollar are translated at current exchange rates at each balance sheet date and the resulting adjustments are included in a separate line item under other income (expense). Non monetary assets and liabilities are translated at historical exchange rates. Revenue and expense in foreign currencies are translated at the weighted-average exchange rates for the period.
- o. *Subsequent events* – The Company has evaluated events and transactions for potential recognition or disclosure in its consolidated financial statements through September 16, 2010.
- p. *New accounting pronouncements* – In September 2006, the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) was updated to establish a framework for measuring fair value and expand disclosure about fair value measurements, but does not require any new fair value measurements. Effective October 1, 2008, the Company adopted the updated guidance for our financial assets and financial liabilities without a material effect on the Company’s consolidated financial statements. In February 2008, the FASB issued an update to the guidance which delayed the effective date for non-financial assets and non-

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued):**

financial liabilities to fiscal years beginning after November 15, 2008. Effective October 1, 2009, the Company adopted the updated guidance for non-financial assets and non-financial liabilities without a material effect on the Company's consolidated financial statements.

In June 2009, the ASC guidance for consolidation accounting (topic 810) was updated to require an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This statement is effective for fiscal years beginning after Nov. 15, 2009. Accordingly, the Company will adopt this updated guidance in fiscal year 2011 and is currently evaluating the impact of adopting this guidance on the consolidated financial statements.

In January 2010, the FASB issued ASC No. 2010-06, "*Fair Value Measurement and Disclosures (Topic 820): Improving Disclosure and Fair Value Measurements*", which requires that purchases, sales, issuances, and settlements for Level 3 measurements be disclosed. ASC No. 2010-06 is effective for its fiscal quarter beginning after 15 December 2010. The adoption of ASC No. 2010-06 impacted disclosures only on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-11, "*Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives*". ASU No. 2010-11 clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Specifically, only one form of embedded credit derivative qualifies for the exemption – one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in ASU No. 2010-11 are effective for each reporting entity at the beginning of its first fiscal quarter beginning after 15 June 2010. Early adoption is permitted at the beginning of each entity's first fiscal quarter beginning after 5 March 2010. The adoption of ASC No. 2010-11 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASC No. 2010-09, "*Amendments to Certain Recognition and Disclosure Requirements*", which eliminates the requirement for SEC filers to disclose the date through which an entity has evaluated subsequent events. ASC No. 2010-09 is effective for its fiscal quarter beginning after 15 December 2010. The adoption of ASC No. 2010-06 will not have a material impact on the Company's consolidated financial statements.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS:**

Effective July 1, 2008, for financial assets and liabilities, and July 1, 2009 for non-financial assets and liabilities, the Company has adopted expanded disclosure requirements to include the following information for each major category of assets and liabilities that are measured at fair value on a recurring or non recurring basis:

- a. the fair value measurement;
- b. the level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3);
- c. for fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:
  - 1) total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities);
  - 2) the amount of these gains or losses attributable to the change in unrealized gains or losses relating to those assets liabilities still held at the reporting period date and a description of where those unrealized gains or losses are reported;
  - 3) purchases, sales, issuances, and settlements (net); and
  - 4) transfers in and/or out of Level 3.

**NOTE 4 – CAPITAL ASSETS:**

As at	June 30, 2010		June 30, 2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	207	42	-	-
Vehicles	25,844	12,491	25,844	7,322
	\$ 26,051	\$ 12,533	\$ 25,844	\$ 7,322
Net book value	\$ 13,518		\$ 18,522	

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 5 – MINERAL RIGHTS:**

	June 30, 2010			
	Opening Balance	Additions	Write-Downs	Net
	(\$)	(\$)	(\$)	(\$)
<b>EZ Property</b>	25,000	-	-	25,000
<b>ES Property</b>	25,000	-	-	25,000
<b>LAM Property</b>	18,750	-	18,750	-
<b>Shag Property</b>	12,500	-	12,500	-
<b>Peru Property</b>	-	97,500	-	97,500
	<b>81,250</b>	<b>97,500</b>	<b>31,250</b>	<b>147,500</b>

	June 30, 2009			
	Opening Balance	Additions	Write-Downs	Net
	(\$)	(\$)	(\$)	(\$)
<b>EZ Property</b>	25,000	-	-	25,000
<b>ES Property</b>	25,000	-	-	25,000
<b>LAM Property</b>	18,750	-	-	18,750
<b>Shag Property</b>	12,500	-	-	12,500
<b>Christmas Property</b>	21,250	-	21,250	-
<b>Ranger Property</b>	25,250	-	25,250	-
<b>Oil Property</b>	25,000	-	25,000	-
	<b>152,750</b>	<b>-</b>	<b>71,500</b>	<b>81,250</b>

**EZ Property:**

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 54 unpatented lode mining claims on the EZ Project located in White Pine County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000.

**ES Property:**

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 26 unpatented lode mining claims on the ES Project located in White Pine County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000.

**LAM Property:**

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 28 unpatented lode mining claims on the LAM Project located in Eureka County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000. Prior to June 30, 2008 the Company determined that it would reduce the number of claims held to 21 to reduce holding costs, and 7 of the claims were dropped subsequent to June 30, 2008. One quarter of the capitalized costs (\$6,250) associated with the project were charged against Land payments and fees in the statement of operations for the year ended June 30, 2008. During the year ended June 30, 2010 this project was dropped by the Company and the \$18,750 in capitalized costs associated with the project were charged against the statement of operations.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 5 – MINERAL PROPERTIES, (continued)**

**Shag Property:**

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 32 unpatented lode mining claims on the SHAG Project located in Lander County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000. During the year ended June 30, 2008 the group was reduced to a total of 16 claims to reduce holding costs. One half of the capitalized costs (\$12,500) associated with the project were charged against Land payments and fees in the statement of operations for the year ended June 30, 2008. During the year ended June 30, 2010 this project was dropped by the Company and the \$18,750 in capitalized costs associated with the project were charged against the statement of operations.

**Peru Property:**

On March 25, 2010 – The Company entered into a letter of intent agreement with Geologix Explorations Inc. to acquire the right to earn a 100% interest in eight of the Company's Peruvian properties. The option agreement covers the Liscay, Largatija, Lachoc, Mirko, San Felipe, Sura, Toro Blanco and Cayhua properties (the "Properties") which are currently owned 100% by Geologix. Portions of the Liscay, Largatija, Lachoc, and Mirko properties are subject to a 2% precious metals NSR and a 1% base metals NSR payable to Newmont Peru S.A. Pursuant to the terms of the option agreement, in order to earn a 100% interest in the Properties, the Company is required to:

- 1) Pay Geologix US\$30,000 on signing of the Letter of Intent ("LOI") (payment delivered March 8, 2010);
- 2) Pay Geologix US\$67,500 on or before May 31, 2010. Geologix further agrees to use this payment to renew the Properties' concessions for 2010 (paid June 8, 2010);
- 3) Deliver to Geologix, shares of the Company valued at US\$250,000, distributed, as follows:
  - (i) 500,000 common shares of the Company to be delivered on or before May 31, 2010, with each share to be accompanied by a half warrant, with each full warrant entitling Geologix the right to purchase one additional common share of the Company for a period of two years from the date the shares are issued; (delivered after year end)
  - (ii) An additional payment of the Company shares and warrants as described in (i) above, shall be delivered within 10 days after the Company completes a private placement or public financing, but no later than September 30, 2010, such that the total value of shares delivered totals US\$250,000 (delivered after year end)

Upon completion of the above exchanges and payments, the Company shall own the Properties, and Geologix shall execute whatever documents are required to effectuate the exchange of title to the Properties to the Company.

If the Company or any of its affiliates should sell, lease, transfer, convey or otherwise disposes of any of the properties or enters into an option or agreement to do any of the same, or if it grants a royalty on the properties, or any portion thereof, to a third party before March 8, 2011, the Company shall pay Geologix 20% of the proceeds when received from such transaction.

The Company is not obligated to any work commitment on the properties.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 5 – MINERAL PROPERTIES, (continued)**

**Christmas Property:**

On May 30<sup>th</sup> 2007, the Company signed a Mineral Lease Agreement with Option to Purchase which was followed by the signing of a Memorandum of Mineral Lease Agreement on June 7<sup>th</sup>, 2007 for 14 unpatented lode mining claims on the CHRISTMAS Project located in Lemhi County, Idaho. These agreements call for the payment of 25,000 shares of the Company's stock valued at \$1,250, an initial payment of \$700 as an advance minimum royalty covering the first month's payment; and monthly fees of \$700 beginning June 1<sup>st</sup> 2007 and continuing thru March 1<sup>st</sup> 2008. Twenty six additional unpatented lode mining claims were added to the block in June of 2007. During the year ended June 30, 2009 this project was dropped by the Company and the \$21,250 in capitalized costs associated with the project were charged to the statement of operations.

**Ranger Property:**

On March 20<sup>th</sup> 2007, the Company signed a Letter of Intent which was followed by a Memorandum of Mineral Lease Agreement dated July 26, 2007 with Cedar Mountain Ventures ("CMV"), for 30 unpatented lode mining claims on the Ranger Project located in Pershing County, Nevada. This agreement calls for the payment of 25,000 shares of the Company's stock valued at \$1,250 and the payment of \$14,000. A subsequent payment of \$10,000 was made to CMV in the year ended June 30, 2008. During the year ended June 30, 2009 this project was dropped by the Company and the \$25,250 in capitalized costs associated with the project were charged to the statement of operations.

**Oil Property:**

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 20 unpatented lode mining claims on the Oil Project located in Nye County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000. During the year ended June 30, 2009 this project was dropped by the Company and the \$25,000 in capitalized costs associated with the project were charged against Land payments and fees in the statement of operations.

**NOTE 6 – COMMON STOCK:**

*Stock Issued for Services*

During the year ended June 30, 2010, the Company issued 50,000 and 1,550,000 shares, respectively of common stock. The 50,000 shares issued during the year ended June 30, 2010 were issued at a value of \$0.20 per share as compensation for consulting services. The remaining 1,550,000 shares issued during the year ended June 30, 2010 were issued at a value of \$0.05 per share as compensation for management services.

During the year ended June 30, 2009, the Company issued 240,000 shares of common stock at a value of \$0.05 per share as compensation for legal and management services.

**NOTE 7 – STOCK OPTIONS:**

In January 2007, the Company's board adopted the 2007 Equity Incentive Plan in order to provide incentives to directors, employees and others rendering services to the Company. The Plan authorizes the granting of up to 10,000,000 stock options to employees, directors and consultants.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 7 – STOCK OPTIONS, (continued)**

In November 2007, 1,500,000 options were issued to directors and officers of the Company. The options have an exercise price of \$0.20, with one third vesting at the time of grant, one third vesting in November 2008 and the remaining third vesting in November 2009. These options expire after eight years. The fair value of the options granted was estimated on their grant date using the Black-Scholes Option Price Model. The following assumptions were made in estimating fair value: risk-free interest rate of 3.71%; volatility of 90.0%; expected life of 3 years; dividend yield of zero. The options were valued at \$0.01 per share, or \$15,000, \$5,000 of which vested during fiscal 2010.

In January 2010, 450,000 options were issued to directors, officers and consultants of the Company. The options have an exercise price of \$0.20, and vested immediately at the time of grant. These options expire after five years. The fair value of the options granted was estimated on their grant date using the Black-Scholes Option Price Model. The following assumptions were made in estimating fair value: risk-free interest rate of 2.39-2.55%; volatility of 100.0%; expected life of 5 years; dividend yield of zero. The options were valued at \$0.15 per share, or \$68,000.

In January 2010, the Company received approval to extend the life of options issued to officers and directors of the Company by five years with the revised expiry date being November 2015. The weighted-average fair value of those amended options issued during the year ended June 30, 2010 was \$0.15 per option resulting in a total fair value of amended options issued of \$225,000. The fair value of the options cancelled immediately before the issuance was \$105,000 and the additional stock-based compensation recorded regarding the amended options was \$120,000.

The following is a summary of the Company's options issued under the 2007 Equity Incentive Plan:

	Shares	Weighted Average Exercise Price
Outstanding at June 30, 2009	1,500,000	\$ 0.20
Granted	450,000	0.20
Expired	<u>(300,000)</u>	<u>(0.20)</u>
Outstanding at June 30, 2010	<u>1,650,000</u>	<u>\$ 0.20</u>
Exercisable at June 30, 2010	<u>1,650,000</u>	<u>\$ 0.20</u>
Weighted average fair value of options granted during the year ended June 30, 2010		<u>\$ 0.15</u>

The weighted average remaining contractual term of options both outstanding and exercisable at June 30, 2010 was 5.13 years. Total compensation costs related to vested stock options were \$193,000 and \$5,000 for the years ended June 30, 2010 and 2009 respectively. Over the next twelve months, the Company expects to recognize no additional expenses for unvested options.



**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 8 – INCOME TAXES:**

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating losses and tax credit carryforwards. As at June 30, 2010 and 2009, the Company had a net deferred tax asset calculated at an expected rate of 34% for losses incurred in the United States of America and 30% for losses incurred in Peru of 509,600 and \$304,300, respectively, principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been recorded at June 30, 2010 and June 30, 2009.

The significant components of deferred income tax assets are:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Net operating loss carryforward	509,600	304,300
Temporary differences:		
Non-deductible stock options	67,300	1,700
Depreciation	<u>(5,300)</u>	<u>(2,300)</u>
Deferred tax asset	<u>\$ 571,600</u>	<u>\$ 303,700</u>
Deferred tax asset valuation allowance	<u>\$ (571,600)</u>	<u>\$ (303,700)</u>

The Company's deferred tax assets consist of net operating loss carry-forwards that are available, within statutory annual limits, to offset future taxable income, if any calculated at a 34% (and 30% for Peru) tax rate. These deferred tax assets which were \$571,600 and \$303,700 at June 30, 2010 and 2009, respectively, were fully offset by valuation allowances for financial reporting purposes. The Company's net operating loss carryforwards of approximately \$1,506,000 will expire in the years June 30, 2018 through June 30, 2030. The valuation allowance increased \$267,900 from June 30, 2009 to June 30, 2010.

The Tax Reform Act of 1986 substantially changed the rules relative to the use of net operating loss and general business credit carryforwards in the event of an "ownership change" of a corporation. Due to the change in ownership during 2007, the Company is restricted in the future use of net operating loss and tax credit carryforwards generated before the ownership change. As of June 30, 2010, this limitation is applicable to accumulated net operating losses of approximately \$6,000, which were incurred prior to the change of ownership.

Although the Company believes that its estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in the tax provisions. Ultimately, the actual tax benefits to be realized will be based upon future taxable earnings levels, which are very difficult to predict.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

***NOTE 9 – COMMITMENTS AND CONTINGENCIES:***

The Company is engaged in mineral exploration and may become subject to certain liabilities as they relate to environmental cleanup of mining sites or other environmental restoration procedures as they relate to mineral mining and the operation thereof. Although the minerals exploration and mining industries are inherently speculative and subject to complex environmental regulations, at the date of these financial statements, the Company is not aware of any environmental issues or litigation relating to any of its current or former properties.

***NOTE 10 – NOTE PAYABLE:***

On May 28, 2010 the Company received a loan in the amount of \$100,000 through the issuance of a promissory note to Timberline Resources Corporation. The promissory carries an interest rate of 12% calculated based on a 360 day year and is repayable on one lump sum payment on June 29, 2010. On June 29, 2010, the Company extended the repayment terms of the loan from June 29, 2010 to August 31, 2010, through payment of a \$500 extension fee.

***NOTE 11 – TAXES RECOVERABLE:***

Taxes recoverable consist of VAT paid on expenditures incurred in Peru which the Company is able to recover.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 12 – OPERATING SEGMENT REPORTING:**

Rae-Wallace Mining Company is a gold exploration company. Rae-Wallace's major operations include the U.S. and Peru. The Company identifies its reportable segments as those consolidated operations that are currently engaged in the exploration for precious metals. Operations not actively engaged in the exploration for precious metals are aggregated at the corporate level for segment reporting purposes.

<b>For year ended June 30,</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Net loss</b>		
U.S.	746,432	503,709
Peru	60,220	-
	<b>806,652</b>	<b>503,709</b>
<b>Significant non-cash items</b>		
Stock-based compensation		
U.S.	193,000	5,000
	<b>193,000</b>	<b>5,000</b>
<b>Capital expenditures</b>		
U.S.	30,000	-
Peru	67,500	-
	<b>97,500</b>	<b>-</b>
<b>As at,</b>	<b>June 30, 2010</b>	<b>June 30, 2009</b>
<b>Total assets</b>		
U.S.	137,266	636,594
Peru	84,738	-
	<b>222,004</b>	<b>636,594</b>

**NOTE 13 – SUBSEQUENT EVENTS:**

The Company entered into an agreement with Geologix Explorations Inc. on which it has previously signed a letter of intent to acquire the right to earn a 100% interest in eight of the Company's Peruvian properties. The option agreement covers the Liscay, Largatija, Lachoc, Mirko, San Felipe, Sura, Toro Blanco and Cayhua properties (the "Properties") which are currently owned 100% by Geologix. Portions of The Liscay, Largatija, Lachoc, and Mirko properties are subject to a 2% precious metals NSR and a 1% base metals NSR payable to Newmont Peru S.A. Pursuant to the terms of the option agreement, in order to earn a 100% interest in the Properties, the Company is required to:

- 1) Pay Geologix US\$30,000 on signing of the Letter of Intent ("LOI") (payment delivered March 8, 2010);

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 13 – SUBSEQUENT EVENTS, (continued)**

- 2) Pay Geologix US\$67,500 on or before May 31, 2010. Geologix further agrees to use this payment to renew the Properties' concessions for 2010 (paid June 8, 2010);
- 3) Deliver to Geologix, shares of the Company valued at US\$250,000, distributed, as follows:
  - (i) 500,000 common shares of the Company to be delivered on or before May 31, 2010, with each share to be accompanied by a half warrant, with each full warrant entitling Geologix the right to purchase one additional common share of the Company for a period of two years from the date the shares are issued; (delivered after year end)
  - (ii) An additional payment of the Company shares and warrants as described in (i) above, shall be delivered within 10 days after the Company completes a private placement or public financing, but no later than September 30, 2010, such that the total value of shares delivered totals US\$250,000 (delivered after year end)

Upon completion of the above exchanges and payments, the Company shall own the Properties, and Geologix shall execute whatever documents are required to effectuate the exchange of title to the Properties to the Company.

If the Company or any of its affiliates should sell, lease, transfer, convey or otherwise disposes of any of the properties or enters into an option or agreement to do any of the same, or if it grants a royalty on the properties, or any portion thereof, to a third party before March 8, 2011, the Company shall pay Geologix 20% of the proceeds when received from such transaction.

On July 22, 2010 Rae-Wallace signed an agreement with Fronteer Gold Inc whereby Rae-Wallace granted to Fronteer Gold the option to acquire a 51% interest in Rae-Wallace's Peru property for a one time payment of \$150,000 and a commitment to incur exploration expenditure up to an amount that is the greater of \$50,000 or three times the amount of expenditures previously incurred.

On July 22, 2010, the Company issued 2,000,000 shares at \$0.25 pursuant to a private placement for gross proceeds of \$500,000. Each share comes with a ½ warrant with each warrant being exercisable for one additional share at a price of \$0.375 per share, expiring on September 30, 2012.

# *Williams & Webster, P.S.*

*Certified Public Accountants & Business Consultants*

---

To the Board of Directors and Stockholders  
Rae-Wallace Mining Company  
Coeur d'Alene, Idaho

## **REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM**

We have audited the accompanying balance sheets of Rae-Wallace Mining Company as of June 30, 2008 and 2007 and the related statements of operations, stockholders' equity, and cash flows for the years then ended and for the period from February 15, 2007 (inception of exploration stage) to June 30, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rae-Wallace Mining Company as of June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended and for the period from February 15, 2007 (inception of exploration stage) to June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's significant operating losses raise substantial doubt about its ability to continue as a going concern. Management's plans are also discussed in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Williams & Webster, P.S.*

Williams & Webster, P.S.  
*Certified Public Accountants*  
Spokane, Washington  
December 12, 2008

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**BALANCE SHEETS**

	June 30,	
	2008	2007
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 962,029	\$ 19,012
Prepaid expenses	3,456	2,729
<b>TOTAL CURRENT ASSETS</b>	<u>965,485</u>	<u>21,741</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Equipment, net	23,690	-
Mining properties	152,750	48,101
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<u>176,440</u>	<u>48,101</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,141,925</u>	<u>\$ 69,842</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 46,781	\$ 1,133
Accrued expenses	5,417	-
Shareholder loan payable	-	15,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>52,198</u>	<u>16,133</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, - issued and outstanding	-	-
Common stock, \$0.01 par value; 100,000,000 shares authorized, 11,855,900 and 3,926,400 shares issued and outstanding, respectively	118,559	39,264
Additional paid-in capital	1,370,244	85,079
Accumulated deficit prior to exploration stage	(6,432)	(6,432)
Accumulated deficit during exploration stage	(392,644)	(64,202)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>1,089,727</u>	<u>53,709</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 1,141,925</u>	<u>\$ 69,842</u>

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



**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**BALANCE SHEETS**

	June 30,	
	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$ 962,029	\$ 19,012
Prepaid expenses	3,456	2,729
TOTAL CURRENT ASSETS	<u>965,485</u>	<u>21,741</u>
PROPERTY AND EQUIPMENT:		
Equipment, net	23,690	-
Mining properties	152,750	48,101
TOTAL PROPERTY AND EQUIPMENT	<u>176,440</u>	<u>48,101</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,141,925</u></b>	<b>\$ <u>69,842</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 46,781	\$ 1,133
Accrued expenses	5,417	-
Shareholder loan payable	-	15,000
TOTAL CURRENT LIABILITIES	<u>52,198</u>	<u>16,133</u>
COMMITMENTS AND CONTINGENCIES	<u>-</u>	<u>-</u>
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, - issued and outstanding	-	-
Common stock, \$0.01 par value; 100,000,000 shares authorized, 11,855,900 and 3,926,400 shares issued and outstanding, respectively	118,559	39,264
Additional paid-in capital	1,370,244	85,079
Accumulated deficit prior to exploration stage	(6,432)	(6,432)
Accumulated deficit during exploration stage	<u>(392,644)</u>	<u>(64,202)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>1,089,727</u>	<u>53,709</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ <u>1,141,925</u></b>	<b>\$ <u>69,842</u></b>

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

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**STATEMENTS OF OPERATIONS**

	Year Ended		Period from February 15, 2007 (Inception of Exploration Stage) to June 30, 2008
	June 30, 2008	June 30, 2007	
<b>REVENUES</b>	\$ -	\$ -	\$ -
<b>OPERATING EXPENSES:</b>			
Salaries & benefits	82,796	-	82,796
Consulting fees	69,890	15,923	85,813
Land payments & fees	81,024	-	81,024
Outside services	25,797	28,381	54,178
Director fees	3,000	14,000	17,000
Professional fees	32,174	1,800	33,974
Other general and administrative expenses	53,239	4,368	57,337
<b>TOTAL OPERATING EXPENSES</b>	<u>347,920</u>	<u>64,472</u>	<u>412,122</u>
<b>LOSS FROM OPERATIONS</b>	<u>(347,920)</u>	<u>(64,472)</u>	<u>(412,122)</u>
<b>OTHER INCOME:</b>			
Interest income	19,478	-	19,478
<b>TOTAL OTHER INCOME</b>	<u>19,478</u>	<u>-</u>	<u>19,478</u>
<b>LOSS BEFORE INCOME TAXES</b>	<u>(328,442)</u>	<u>(64,472)</u>	<u>(392,644)</u>
<b>INCOME TAX EXPENSE</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET LOSS</b>	<u>\$ (328,442)</u>	<u>\$ (64,472)</u>	<u>(392,644)</u>
<b>NET LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED</b>	<u>\$ (0.04)</u>	<u>\$ (0.07)</u>	
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED</b>	<u>7,547,803</u>	<u>961,811</u>	

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



**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**STATEMENT OF STOCKHOLDERS' EQUITY**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit prior to Exploration Stage	Deficit Accumulated During Exploration Stage	Total Stockholders' Equity
	Shares	Amount				
Balance, June 30, 2003	491,400	\$ 4,914	\$ 11	\$ (3,825)	\$ -	\$ 1,100
Prior period adjustment to paid in capital	-	-	(82)	-	-	(82)
Net loss				(2,155)	-	(2,155)
Balance, June 30, 2004	<u>491,400</u>	<u>\$ 4,914</u>	<u>\$ (71)</u>	<u>\$ (5,980)</u>	<u>\$ -</u>	<u>\$ (1,137)</u>
Common stock issued for cash at \$0.05 per share	10,000	100	400	-	-	500
Net loss	-	-	-	(433)	-	(433)
Balance, June 30, 2005	<u>501,400</u>	<u>\$ 5,014</u>	<u>\$ 329</u>	<u>\$ (5,980)</u>	<u>\$ -</u>	<u>\$ (637)</u>
Net loss	-	-	-	(182)	-	(182)
Balance, June 30, 2006	<u>501,400</u>	<u>\$ 5,014</u>	<u>\$ 329</u>	<u>\$ (6,162)</u>	<u>\$ -</u>	<u>\$ (819)</u>
Common stock issued for cash at \$0.05 per share	2,000,000	\$ 20,000	\$ 80,000	\$ -	\$ -	\$ 100,000
Common stock issued to directors and employees	1,325,000	13,250	750	-	-	14,000
Common stock issued for mineral rights	100,000	1,000	4,000	-	-	5,000
Net loss	-	-	-	(270)	(64,202)	(64,472)
Balance, June 30, 2007	<u>3,926,400</u>	<u>\$ 39,264</u>	<u>\$ 85,079</u>	<u>\$ (6,432)</u>	<u>\$ (64,202)</u>	<u>\$ 53,709</u>
Forfeited common stock previously issued to directors	(500,000)	(5,000)	-	-	-	(5,000)
Forgiveness of shareholder payable	-	-	6,000	-	-	6,000
Vested portion of stock options granted	-	-	5,000	-	-	5,000
Common stock issued for professional services	480,000	4,800	19,200	-	-	24,000
Common stock issued for mineral rights	750,000	7,500	142,500	-	-	150,000
Common stock and warrants issued for cash at \$0.20 per unit, net of offering costs	7,199,500	71,995	1,112,465	-	-	1,184,460
Net loss	-	-	-	-	(328,442)	(328,442)
Balance, June 30, 2008	<u>11,855,900</u>	<u>\$ 118,559</u>	<u>\$ 1,370,244</u>	<u>\$ (6,432)</u>	<u>\$ (392,644)</u>	<u>\$ 1,089,727</u>

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

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**STATEMENTS OF CASH FLOWS**

	Year Ended		Period from February 15, 2007 (Inception of Exploration Stage) to June 30, 2008
	June 30, 2008	June 30, 2007	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (328,442)	\$ (64,472)	(392,644)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Depreciation expense	2,154	-	2,154
Increase (decrease) in shareholder note payable	(15,000)	15,000	-
Common stock issued (forfeited) for directors' fees	(5,000)	14,000	9,000
Common stock issued for professional services	24,000	-	24,000
Share based compensation	5,000	-	5,000
Prepaid expenses and deposits	(727)	(2,729)	(3,456)
Accounts payable	45,648	270	45,648
Accrued expenses	5,417	-	5,417
Net cash provided (used) by operating activities	<u>(266,950)</u>	<u>(37,931)</u>	<u>(304,881)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(25,844)	-	(25,844)
Purchase of mineral rights	(24,900)	(43,100)	(68,000)
Disposal of mineral rights	70,251	-	70,251
Net cash used by investing activities	<u>19,507</u>	<u>(43,100)</u>	<u>(23,593)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Forgiveness of shareholder note payable	6,000	-	6,000
Proceeds from issuances of stock, net	1,184,460	100,000	1,284,460
Net cash provided by financing activities	<u>1,190,460</u>	<u>100,000</u>	<u>1,290,460</u>
Net increase in cash and cash equivalents	943,017	18,969	961,986
<b>CASH AT BEGINNING OF PERIOD</b>	<u>19,012</u>	<u>43</u>	<u>43</u>
<b>CASH AT END OF PERIOD</b>	<u>\$ 962,029</u>	<u>\$ 19,012</u>	<u>962,029</u>
<b>NON-CASH FINANCING AND INVESTING ACTIVITIES:</b>			
Common stock issued for mineral rights	\$ 150,000	\$ 5,000	155,000

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

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS**

---

Rae-Wallace Mining Company (hereinafter “Rae-Wallace” or “the Company”) was incorporated under the laws of the State of Idaho in 1916. After several decades of dormancy, the Company reorganized in 1997 as an exploration stage company focused on evaluating, acquiring and exploring mineral prospects with potential for economic deposits of gold and silver.

In 1998, the investor group controlling Rae-Wallace sold their entire interest to Silver Trend Mining Company for 1,500,000 shares of Silver Trend common stock. In 1999, Silver Trend sold the Company to a private investment group, which subsequently conveyed proportional interests to individual investors. In January 2007, the Company underwent a change of control with a new management group joining the Company. The Company’s fiscal year-end is June 30.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

---

- a. *Basis of Presentation* – This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.
- b. *Exploration Stage* – The Company has been in the exploration stage since February 2007. At that time the company began the process of acquiring new mining properties. The Company is primarily engaged in the acquisition, exploration and development of natural resource properties. Upon establishing the existence of proven reserves in one of its properties, the Company plans to actively prepare the site for extraction and enter a development stage.
- c. *Going Concern* – The financial statements have been prepared on the basis of accounting principles applicable to a going concern. Management plans to raise cash from public or private debt or equity financing on an as needed basis and in the longer term, to generate revenues from the acquisition, exploration and development of mineral interests, if found. The Company’s ability to continue as a going concern is dependent upon achieving profitable operations and/or upon obtaining additional financing.
- d. *Fair Value of Financial Instruments* – The Company’s financial instruments include cash, accounts payable, and accrued expenses, and are carried at fair value. The carrying value of notes payable, capital leases, and related party notes payable approximate fair value based on the contractual terms of those instruments at June 30, 2008 and 2007.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

- e. *Cash Equivalents* – For the purposes of the statement of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents in one financial institution. Balances are insured by the Federal Deposit Insurance Corporation up to \$250,000.
  
- f. *Estimates and Assumptions* – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions and could have a material effect on the Company's reported financial position and results of operations.
  
- g. *Review of Carrying Value of Mining Properties for Impairment* – The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment at June 30, 2008.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

- h. *Provision for Taxes* – Income taxes are provided based upon the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109, “*Accounting for Income Taxes*” (“SFAS 109”). Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the “more likely than not” standard imposed by SFAS 109 to allow recognition of such an asset. The Company evaluates tax positions to determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained, the Company recognizes the largest amount that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not more likely than not of being sustained, the Company does not recognize any portion of the benefit.
- i. *Revenue Recognition* – The Company will recognize revenue from sales when there is persuasive evidence that an arrangement exists, services have been rendered, the seller’s price to the buyer is determinable, and collectability is reasonably assured.
- j. *Stock-based compensation* – The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “*Share-based Payment*” (“SFAS 123(R)”), at the beginning of fiscal year 2007, which requires the measurement of the cost of employee services received in exchange for an award of an equity instrument on the grant-date fair value of the award. The Company has chosen to use the modified prospective transition method under SFAS 123(R). The Company’s financial statements for the year ended June 30, 2008 reflect the impact of this adoption. Prior to the adoption of SFAS 123(R) the Company accounted for its stock-based compensation pursuant to SFAS 123.

Under SFAS 123(R), the Company is required to select a valuation technique or option-pricing model that meets the criteria as stated in the standard. At present, the Company is continuing to use the Black-Scholes model, which requires the input of some subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (“expected life”), the estimated volatility of the Company’s common stock price over the expected term (“volatility”), the risk-free interest rate and the dividend yield. Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

- k. *Net Loss per Share* – Basic EPS is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants, and other convertible securities.

At June 30, 2008 and 2007, the effect of the Company's outstanding options and common stock equivalents would have been anti-dilutive. Accordingly, only basic EPS is presented.

- l. *New accounting pronouncements* – In May 2008, the FASB issued SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*." SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company is currently evaluating the potential impact of the adoption of SFAS No. 162.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities*" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of FASB Statement 133, "*Accounting for Derivative Instruments and Hedging Activities*" ("SFAS No. 133") to require qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit risk related contingent features in derivative agreements. The Statement is effective for consolidated financial statements issued for fiscal years and periods beginning after November 15, 2008. Early application is encouraged. The Company is currently evaluating the impact of the adoption of SFAS No. 161.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements*" ("SFAS No. 160"). This statement's objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require ownership interests in the subsidiaries held by parties other than the parent be clearly identified. The Statement is effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively as of the beginning of the fiscal year in which the Statement is initially applied, except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. Earlier adoption is not permitted. The Company is currently evaluating the impact of the adoption of SFAS No. 160.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

In December 2007, the FASB issued SFAS No. 141(R), "*Business Combinations*" ("SFAS No. 141(R)"). SFAS No. 141(R) requires recognition and measurement of the identifiable assets acquired, the liabilities assumed, and any non controlling interest in a business combination, goodwill acquired or a gain from a bargain purchase. The Statement is effective for fiscal years beginning on or after December 15, 2008 and is to be applied prospectively. Earlier adoption is not permitted. The Company is currently evaluating the impact of the adoption of SFAS No. 141(R).

In February 2007, The FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. The statement allows entities to value financial instruments and certain other items at fair value. The statement provides guidance over the election of the fair value option, including the timing of the election and specific items eligible for the fair value accounting. Changes in fair values would be recorded in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is evaluating the impact the adoption of this statement will have, if any, on its financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, ("SFAS 157"). SFAS 157 establishes a framework for measuring fair value and expands disclosure about fair value measurements, but does not require any new fair value measurements. The provisions of SFAS No. 157 are effective for fair value measurements made in fiscal years beginning after November 15, 2007. The Company has not yet determined the effect that adoption of SFAS 157 may have on the results of operations or financial position.

In July 2006, the FASB issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*" ("FIN 48") which prescribes a recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring uncertain tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income taxes assets and liabilities. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is required to be recognized as a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The adoption of FIN 48 did not have a material impact on the financial statements of the Company.

---

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE 3 – MINERAL PROPERTY INTERESTS**

---

On March 20, 2007, the Company signed a Letter of Intent which was followed by a Memorandum of Mineral Lease Agreement dated July 26, 2007 with Cedar Mountain Ventures (“CMV”), for 30 unpatented lode mining claims on the **Ranger Project** located in Pershing County, Nevada. This agreement calls for the payment of 25,000 shares of the Company stock and the payment of \$14,000. Other terms of the agreement include annual payments escalating to \$35,000 by April 1, 2013. The Company agrees to pay CMV a 3% Net Smelter Returns upon all minerals mined. Upon the spending of \$300,000 by the Company, the NSR shall be reduced to 2%. A further 1% NSR can be bought by paying CMV \$500,000. As of June 30, 2008 the Company has paid \$25,250.

On March 20, 2007, the Company signed a Letter of Intent which was followed by a Memorandum of Mineral Lease Agreement dated July 26, 2007 with Cedar Mountain Ventures (“CMV”), for 28 unpatented lode mining claims on the **Wind Project** located in Pershing County, Nevada. This agreement calls for the payment of 25,000 shares of the Company stock and the payment of \$11,000. Other terms of the agreement include annual payments escalating to \$35,000 by April 1, 2013. The Company agrees to pay CMV a 3% Net Smelter Returns upon all minerals mined. Upon the spending of \$300,000 by the Company, the NSR shall be reduced to 2%. A further 1% NSR can be bought by paying CMV \$500,000. This project was dropped by the Company on March 27, 2008 and all capitalized costs associated with the project were charged against income.

On April 26<sup>th</sup>, 2007, the company signed a Mineral Lease Agreement with Option to Purchase with Arthur Leger, Owner, for 36 unpatented lode mining claims on the **NBAM Project** located in Lander County, Nevada. This agreement calls for the payment of 25,000 shares of the Company stock and the payment of \$13,000, of which \$3,000 is to be used to pay recording fees to the Bureau of Land Management. This project was dropped by the Company on March 31, 2008 and all capitalized costs associated with the project were charged against income.

On May 30<sup>th</sup>, 2007, the Company signed a Mineral Lease Agreement with Option to Purchase which was followed by the signing of a Memorandum of Mineral Lease Agreement on June 7<sup>th</sup>, 2007 for 14 unpatented lode mining claims on the **CHRISTMAS Project** located in Lemhi County, Idaho. These agreements call for the payment of 25,000 shares of the Company, an initial payment of \$700 as an advance minimum royalty covering the first month’s payment, monthly fees of \$700 beginning June 1<sup>st</sup>, 2007 and continuing thru March 1<sup>st</sup>, 2008. Other terms of the agreement include annual payments escalating to \$30,000 by April 1, 2011. A 5% Net Smelter Royalty will be given on all minerals mined and removed from the property. The Company has the right to purchase 2% of the NSR for a payment of \$800,000. Twenty six



**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

additional unpatented lode mining claims were added to the block in June of 2007. As of June 30, 2008 the Company has paid \$21,250.

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 26 unpatented lode mining claims on the **ES Project** located in White Pine County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 28 unpatented lode mining claims on the **LAM Project** located in Eureka County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock. Prior to June 30, 2008 the Company determined that it would reduce the number of claims held to 21 to reduce holding costs, and 7 of the claims were dropped subsequent to year end. One quarter of the capitalized costs (\$6,250) associated with the project were charged against income as a result.

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 32 unpatented lode mining claims on the **CAKE Project** located in White Pine County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock. Subsequent to year end this project was dropped by the Company and all capitalized costs associated with the project were charged against income as the property's value was determined to be impaired at June 30, 2008.

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 32 unpatented lode mining claims on the **SHAG Project** located in Lander County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock. Since that time, the group was reduced to a total of 16 claims to reduce holding costs. One half of the capitalized costs (\$12,500) associated with the project were charged against income as a result.

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 54 unpatented lode mining claims on the **EZ Project** located in White Pine County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000.

On October 30, 2007, the Company signed an agreement with Trend Resources, LLC which transferred ownership of all 20 unpatented lode mining claims on the **Oil Project** located in Nye County, Nevada. In return for signing the transfer, the Company made a one-time payment of 125,000 shares of Company stock valued at \$25,000.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE 4 – RELATED PARTY TRANSACTIONS**

---

During the year ended June 30, 2007, the Company entered into a contract with a related party shareholder for professional services to be paid at a monthly rate. At June 30, 2007, \$15,000 was accrued to be paid to this shareholder. During the year ended June 20, 2008, the liability was discharged by a payment of \$9,000. The remaining \$6,000 was forgiven by the related party shareholder. The forgiven amount of the outstanding payable to shareholder has been reclassified to Additional Paid-In Capital.

**NOTE 5 – COMMON STOCK**

---

*Private Placement*

During the year ended June 30, 2008, the Company sold 7,199,500 shares of common stock at a price of \$0.20 per share. The Company realized net proceeds of \$1,334,460 from this transaction.

During the year ended June 30, 2007, the Company sold 2,000,000 shares of common stock at a price of \$0.05 per share. The Company realized net proceeds of \$100,000 from this transaction.

*Stock Issued for Services*

During the year ended June 30, 2008, the Company issued 480,000 shares of common stock at a price of \$0.20 per share as compensation for legal and management services.

During the year ended June 30, 2007 the Company issued 1,325,000 shares of common stock at a price of \$0.05 per share to directors and employees of the Company as compensation for services rendered to the Company. During the year ended June 30, 2008, 500,000 shares of the 1,325,000 shares of common stock issued in the prior year were forfeited and returned to the Company.

*Stock Issued for Mineral Rights*

During the year ended June 30, 2008, the Company issued 750,000 shares of common stock for the acquisition of several mining properties at a price of \$0.20 per share (for a total of \$150,000).

During the year ended June 30, 2007, the Company issued 100,000 shares of common stock for the acquisition of several mining properties at a price of \$0.05 per share (for a total of \$5,000).  
See Note 3.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE 6 – STOCK OPTIONS**

---

In January 2007, the Company's board adopted the 2007 Equity Incentive Plan in order to provide incentives to directors, employees and others rendering services to the Company. The Plan authorizes the granting of up to 10,000,000 stock options to employees, directors and consultants.

As of June 30, 2007, 1,225,000 options have been granted to five individuals at \$0.05 per share, with options vesting incrementally through August 15, 2007, and expiring in 8 years. During the six months ended June 30, 2007, 612,500 options have vested.

The fair value of each option granted is estimated on the grant date using the Black-Scholes Option Price Calculation. The following assumptions were made in estimating fair value: risk-free interest rate of 5.03%; volatility of 90.0%; expected life of 8 years, dividend yield of zero. The options were valued at \$0.00 per share, or \$0.

During the year ended June 30, 2008, all of the options granted under the plan as of June 30, 2007 were forfeited prior to exercise upon the resignation from the Company of all option grantees.

In November 2007, 1,500,000 options were issued to directors and officers of the Company. The options have an exercise price of \$0.20, with one third vesting at the time of grant, one third vesting in November 2008 and the remaining third vesting in November 2009. These options expire after three years. The fair value of the options granted was estimated on their grant date using the Black-Scholes Option Price Model. The following assumptions were made in estimating fair value: risk-free interest rate of 3.71%; volatility of 90.0%; expected life of 3 years; dividend yield of zero. The options were valued at \$0.01 per share, or \$15,000.

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

There is no express termination date for the options, although the Board may vote to terminate the Plan. The exercise price of the options will be determined at the date of grant. The following is a summary of the Company's options issued under the 2007 Equity Incentive Plan:

	<u>Shares</u>		<u>Weighted Average Exercise Price</u>
Outstanding at June 30, 2007	612,500	\$	0.05
Granted	1,500,000		0.20
Forfeited, per note above	<u>612,500</u>		<u>0.05</u>
Outstanding at June 30, 2008	<u>1,500,000</u>	\$	<u>0.20</u>
Exercisable at June 30, 2008	<u>500,000</u>	\$	<u>0.20</u>
Weighted average fair value of options granted during the period ended June 30, 2008		\$	<u>0.01</u>
Total compensation costs related to vested stock options as of June 30, 2008		\$	<u>5,000</u>
Weighted average period of non-vested stock options as of June 30, 2008			<u>0.83 years</u>

**RAE-WALLACE MINING COMPANY**  
**(An Exploration Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE 7 – INCOME TAXES**

---

At June 30, 2008 and 2007, the Company had a net deferred tax asset calculated at an expected rate of 34% of \$147,841 and \$24,015, respectively, principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been recorded at June 30, 2008 and June 30, 2007.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Net operating loss carryforwards	\$ <u>434,825</u>	\$ <u>70,633</u>
Deferred tax asset	\$ <u>147,841</u>	\$ <u>24,015</u>
Deferred tax asset valuation allowance	\$ <u>(147,841)</u>	\$ <u>(24,015)</u>

The Company's net operating loss carryforwards will expire in the years June 30, 2018 through June 30, 2028. The valuation allowance increased \$123,826 from June 30, 2007 to June 30, 2008.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

---

The Company is engaged in mineral exploration and may become subject to certain liabilities as they relate to environmental cleanup of mining sites or other environmental restoration procedures as they relate to mineral mining and the operation thereof. Although the minerals exploration and mining industries are inherently speculative and subject to complex environmental regulations, at the date of these financial statements, the Company is not aware of any environmental issues or litigation relating to any of its current or former properties.

## AUDITORS' CONSENT

We have read the long form prospectus of Rae-Wallace Mining Company (the "Company") dated July 8, 2011 qualifying the distribution of up to 13,333,333 Units of the Company; (i) each unit consisting of one common share and one-half of one common share purchase warrant; (ii) 1,200,000 common share broker warrants; and (iii) 80,000 corporate finance shares. 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 long form prospectus of our report to the Board of Directors and Stockholders of the Company on the consolidated balance sheets of the Company as at June 30, 2010 and 2009 and the consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two-year period ended June 30, 2010 and for the period from February 15, 2007 (inception) to June 30, 2010. Our report is dated September 28, 2010.

*"BehlerMick PS" (signed)*

BehlerMick PS

Spokane, Washington

July 8, 2011

## AUDITORS' CONSENT

We have read the long form prospectus of Rae-Wallace Mining Company (the "Company") dated July 8, 2011 qualifying the distribution of up to 13,333,333 Units of the Company; (i) each unit consisting of one common share and one-half of one common share purchase warrant; (ii) 1,200,000 common share broker warrants; and (iii) 80,000 corporate finance shares. 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 long form prospectus of our report to the Board of Directors and Stockholders of the Company on the balance sheets of the Company as at June 30, 2008 and 2007 and the statements of operations, stockholders' equity and cash flows for each of the years in the two-year period ended June 30, 2008 and for the period from February 15, 2007 (inception) to June 30, 2008. Our report is dated December 12, 2008.

*"BehlerMick PS" (signed)*

BehlerMick PS

Spokane, Washington

July 8, 2011

**CERTIFICATE OF THE COMPANY**

Dated: July 8 , 2011

This Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of each of the provinces of British Columbia, Alberta and Ontario.

*“George Cole” (signed)*

George Cole  
Chief Executive Officer

*“Andres Tinajero” (signed)*

Andres Tinajero  
Chief Financial Officer

On behalf of the Board of Directors of  
**RAE-WALLACE MINING COMPANY**

*“Gary Nordin” (signed)*

Gary Nordin  
Director

*“Edward Thompson” (signed)*

Edward Thompson  
Director



## **CERTIFICATE OF THE AGENT**

Dated: July 8, 2011

To the best of our knowledge, information and belief, this Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of British Columbia, Alberta and Ontario.

**RAYMOND JAMES LTD.**

*“David Melillo” (signed)*

---

David Melillo  
Senior Vice President – Venture Corporate Finance