

**Solex del Peru S.A.C. – Silver Operations**  
(An Exploration Stage Company)

**Carve-out Financial Statements**

**June 30, 2011 and 2010**  
(Canadian Dollars)

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying financial statements of Solex del Peru S.A.C., or the Company, have been prepared by management in accordance with International Financial Reporting Standards and contain estimates based on management's judgement. Management maintains an appropriate system of internal controls to provide assurance that transactions are authorized, assets safeguarded and proper records maintained.

The Audit Committee of the Board of Directors has reviewed with the Company's independent auditors the scope and results of the annual audit and the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent auditors, Smythe Ratcliffe LLP are appointed by the shareholders to conduct an audit in accordance with Canadian generally accepted auditing standards and their report follows.

## **MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")**

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the financial statements.

As the Company is a Venture Issuer (as defined under under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) ("NI 52-109"), the Company and management are not required to include representations relating to the establishment and/or maintenance of disclosure controls and procedures ("DC&P) and/or ICFR, as defined in NI 52-109.

*"Nick Tintor"*  
President and Chief Executive Officer  
February 27, 2012

*"Stephen Gledhill"*  
Chief Financial Officer  
February 27, 2012

## INDEPENDENT AUDITORS' REPORT

### TO THE DIRECTORS OF SOLEX DEL PERU S.A.C. – Silver Operations

(An Exploration Stage Company)

We have audited the accompanying financial statements of Solex del Peru S.A.C. – Silver Operations, which comprise the carve-out statements of financial position as at June 30, 2011 and June 30, 2010, and the carve-out statements of comprehensive loss, changes in equity and cash flow for the years ended June 30, 2011 and June 30, 2010, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Carve-out Financial Statements*

Management is responsible for the preparation and fair presentation of these carve-out financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the carve-out financial statements present fairly, in all material respects, the financial position of Solex del Peru S.A.C. – Silver Operations as at June 30, 2011 and June 30, 2010, and the results of its operations and its cash flow for the years ended June 30, 2011 and June 30, 2010 in accordance with International Financial Reporting Standards.

#### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to note 2 in the financial statements, which indicates that the Company had no source of financing. This condition, along with other matters set forth in note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

*Smythe Ratcliffe LLP*

Chartered Accountants

Vancouver, British Columbia  
February 27, 2012

**Solex del Peru S.A.C. – Silver Operations**  
**Carve-out Statements of Financial Position**  
*(Canadian Dollars)*

	<b>June 30, 2011</b>	June 30, 2010
	\$	\$
<b>ASSETS</b>	-	-
<b>LIABILITIES</b>		
Current		
Trade payables and accrued liabilities <i>(note 8)</i>	<b>144,230</b>	159,574
Due to Southern Andes Energy Inc. <i>(note 12)</i>	<b>1,623,273</b>	1,613,077
	<b>1,767,503</b>	1,772,651
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>(note 9)</i>	<b>3,973</b>	3,973
Deficit	<b>(1,771,476)</b>	(1,776,624)
	<b>(1,767,503)</b>	(1,772,651)
	-	-

Approved by the Board on February 27, 2012:

*"Robert Boaz"*  
Director

*"Stephen Coates"*  
Director

*The accompanying notes are an integral part of these carve-out financial statements.*

**Solex del Peru S.A.C. – Silver Operations**  
**Carve-out Statements Comprehensive Loss**  
**Years ended June 30**  
*(Canadian dollars except share information)*

	2011	2010
	\$	\$
Exploration expenses <i>(note 10)</i>	<b>622</b>	130,755
Loss before other item	<b>(622)</b>	(130,755)
Other item		
Foreign exchange gain (loss)	<b>5,770</b>	(17,419)
<b>Net income (loss) and comprehensive income (loss) for the year</b>	<b>5,148</b>	(148,174)
<b>Basic and diluted income (loss) per share</b>	<b>0.51</b>	(14.82)
<b>Weighted average number of common shares outstanding</b>	<b>10,000</b>	10,000

*The accompanying notes are an integral part of these carve-out financial statements.*

**Solex del Peru S.A.C. – Silver Operations**  
**Carve-out Statements of Changes in Equity**  
*(Canadian Dollars)*

<b>Share Capital</b>				
	<b>Number of Shares</b>	<b>Amount</b>	<b>Deficit</b>	<b>Total</b>
		\$	\$	\$
<b>Balance at June 30, 2009</b>	<b>10,000</b>	<b>3,973</b>	<b>(1,628,450)</b>	<b>(1,624,477)</b>
Net loss for the year	-	-	(148,174)	(148,174)
<b>Balance at June 30, 2010</b>	<b>10,000</b>	<b>3,973</b>	<b>(1,776,624)</b>	<b>(1,772,651)</b>
Net income for the year	-	-	5,148	5,148
<b>Balance at June 30, 2011</b>	<b>10,000</b>	<b>3,973</b>	<b>(1,771,476)</b>	<b>(1,767,503)</b>

*The accompanying notes are an integral part of these carve-out financial statements.*

**Solex del Peru S.A.C. – Silver Operations**  
**Carve-out Statements of Cash Flow**  
**Years ended June 30**  
*(Canadian Dollars)*

	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Operations</b>		
Net income (loss)	<b>5,148</b>	(148,174)
Net change in non-cash working capital item		
Trade payables and accrued liabilities	<b>(15,344)</b>	159,574
Due to Southern Andes Energy Inc.	<b>10,196</b>	(11,400)
<b>Cash used in operating activities</b>	-	-
<b>Increase in cash</b>	-	-
Cash at beginning of year	-	-
<b>Cash at end of year</b>	-	-
<b>Supplemental Cash flow information</b>		
Interest paid	-	-
Income taxes paid	-	-

*The accompanying notes are an integral part of these carve-out financial statements.*

**Solex del Peru S.A.C. – Silver Operations**  
**Notes to the Carve-out Financial Statements**  
**Years ended June 30, 2011 and 2010**  
*(Canadian Dollars)*

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**1. General**

Solex del Peru S.A.C. (“Solex” or the “Company”) is an exploration stage company. The Company is a wholly-owned subsidiary of Southern Andes Energy Inc. (“SAE”), a publicly listed company incorporated in Canada whose shares are listed in the TSX Venture Exchange. Solex was incorporated on October 18, 2005.

The principal business activity of the Company is the acquisition, exploration and development of mineral properties in Peru. The Company’s main and registered office is located in Lima, Peru.

Effective August 19, 2011, SAE and Ansue Capital Corp. (“Ansue”) signed a definitive agreement for the transfer of SAE’s interests in Caracara Silver Inc. (“Caracara”) and Solex (the “Acquisition”, refer to note 5). Following the transaction, SAE owns approximately 65% of the issued and outstanding shares of Ansue. From an accounting perspective, as SAE controls Ansue, Solex is deemed to be the acquirer.

These carve-out financial statements of the Company present the financial position and results of operations on a carve-out basis and represent the silver operations of Solex, which remain in the Company just prior to acquisition by Ansue. The carve-out financial statements and notes thereto have been derived from the accounting records of Solex on a carve-out basis. The carve-out financial statements have been presented in accordance with the continuity of interest basis of accounting with financial statement amounts based on amounts recorded by Solex.

**2. Continuation of operations**

These financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at June 30, 2011, the Company has not generated any revenues from operations and has an accumulated deficit of \$1,771,476 (2010 - \$1,776,624).

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis and at amounts that differ from those shown in the these carve-out financial statements.

The continuity of the Company as a going concern is dependent upon the continued financial support of its shareholders or obtaining equity or debt financing. These carve-out financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

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*(Canadian Dollars)*

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**3. Basis of Preparation**

**3.1 Statement of compliance**

These financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee.

These financial statements were approved by the Company’s Board of Directors on February 27, 2012.

**3.2 Basis of presentation**

These financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, that are measured at fair value, as explained in the accounting policies set out in note 4.

**3.3 Adoption of new and revised standards and interpretations**

The IASB issued a number of new and revised International Accounting Standards, IFRSs and amendments that are effective for the Company’s financial year beginning on or after July 1, 2011:

- **IFRS 9 *Financial Instruments: Classification and Measurement*** – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.
- **IFRS 10 *Consolidated Financial Statements*** – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- **IFRS 11 *Joint Arrangements*** – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- **IFRS 12 *Disclosure of Interests in Other Entities*** – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- **IFRS 13 *Fair Value Measurement*** – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

The Company has not early-adopted these standards, amendments and interpretations; however, the Company is currently assessing what impact the application of these standards or amendments will have on the financial statements of the Company.

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**4. Summary of significant accounting policies**

**4.1 Mineral properties**

All acquisition and exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property and equipment. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

**4.2 Decommissioning, restoration and similar liabilities**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and property and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

As at June 30, 2011 and 2010, the Company has no such liabilities.

**4.3 Taxation**

Income tax expense represents the sum of tax currently payable and deferred tax.

***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

***Deferred income tax***

Deferred income tax is provided using the asset and liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of operations.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

#### **4.4 Income (loss) per share**

The basic income (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the year. The diluted income (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year. The calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. There were no stock options outstanding as at June 30, 2011 and 2010.

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#### **4.5 Financial assets**

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

#### **4.6 Financial liabilities**

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company’s trade payables and accrued liabilities and due to SAE are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income (loss). As at June 30, 2011 and 2010, the Company has not classified any financial liabilities as FVTPL.

#### **4.7 Impairment of financial assets**

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

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***Assets carried at amortized cost***

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

***Available-for-sale***

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

**4.8 Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**4.9 Related party transactions and balances**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are in the normal course of business.

**4.10 Foreign currency transactions**

*Functional and presentation currency*

Items included in the carve-out financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional and presentation currency of the Company is the Canadian dollar.

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*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of operations.

**4.11 Significant accounting judgements and estimates**

The preparation of these carve-out financial statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates, when applicable, relate to asset retirement obligations, valuation of deferred income tax amounts and the completeness of accrued liabilities. The most significant judgements, when applicable, relate to recognition of deferred tax assets and liabilities and the determination of the economic viability of a project.

**5. Acquisition**

On April 13, 2011, SAE and Ansue entered into a Qualifying Transaction (as such term is defined under the TSX Venture Exchange Policy 2.4), pursuant to which Ansue agreed to acquire from SAE, by issuing 100,000,000 pre-consolidation (or 33,333,333 post-consolidation) shares to SAE, all of the issued and outstanding shares in the capital of the Company, Caracara, and Alpaca Exploraciones S.A.C. As a result of the Qualifying Transaction, Ansue will acquire all of the silver assets of SAE, which comprise 24,600 hectares of concessions located approximately 200 kilometres north of Juliaca, Peru. The Company currently also owns certain uranium assets located in Peru. These assets do not form a part of the Qualifying Transaction and will be transferred out of the Company to SAE on a non-cash basis immediately before the closing of the Acquisition. SAE has agreed to remain liable for all costs and obligations in connection with such uranium assets.

The Qualifying Transaction was completed on August 19, 2011. Based on the relative ownership percentages of the combined company, by the shareholders of SAE prior to the transaction and former Ansue shareholders, from an accounting perspective, the Company is considered to be the accounting acquirer and, therefore, the Qualifying Transaction has been accounted for as a reverse takeover. For financial reporting purposes, the combined company is considered a continuation of the Company, the legal subsidiary, except with regard to authorized and issued share capital, which is that of Ansue, the legal parent. Ansue was not considered to be an acquired business under accounting guidance as it was a capital pool company. Therefore, the Qualifying Transaction will be accounted for as a capital transaction and not a business combination.

On May 31, 2011, Ansue completed a private placement (the "Offering") of 14,242,501 units (each a "Unit") for aggregate gross proceeds of \$6,409,125. Each Unit was automatically converted for no further consideration into one Company Unit on a post-consolidation basis immediately upon completion of the Qualifying Transaction. The proceeds of the Offering were held in escrow until the completion of the Qualifying Transaction.

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**6. Capital management**

The Company considers its capital to be equity, which is comprised of share capital and deficit, which as at June 30, 2011, was a deficit of \$1,771,476 (2010 - \$1,776,624). The Company's capital structure is adjusted based on the funds available to the Company such that it may continue exploration and development of its properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

The Company's properties are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flow. The Company completed the Qualifying Transaction with Ansue on August 19, 2011, and intends to raise additional funds as and when required to complete its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management for the year ended June 30, 2011. The Company is not subject to externally imposed capital restrictions.

**7. Financial instruments**

**Fair value**

Trade payables and accrued liabilities and due to SAE are classified for accounting purposes as other financial liabilities, which are measured at amortized cost, which also equals fair value. Fair values of trade payables and accrued liabilities and due to SAE are determined from transaction values that were derived from observable market inputs.

As at June 30, 2011 and 2010, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the relatively short periods to maturity of these investments.

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

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

**i) Credit risk**

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is attributable to various financial instruments, as noted below. The credit risk is limited to the carrying value amount carried on the statement of financial position, which as at June 30, 2011 and 2010, is \$nil.

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**ii) Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet financial liabilities as they become due. As at June 30, 2011, the Company had a working capital deficiency of \$1,767,503 (2010 - \$1,772,651). The majority of this deficiency is due to amounts owed to SAE (the Company's parent), with such amounts repaid upon completion of the Qualifying Transaction whereby the net proceeds of the Offering were released to the Company. The long-term continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. In addition, in order to meet its longer term working capital requirements and property exploration expenditures, the Company intends on securing further financing to ensure that those obligations are properly discharged.

**iii) Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

**a. Interest rate risk**

The Company is not exposed to significant interest rate price risk due to the short-term nature of its monetary assets and liabilities.

**b. Currency risk**

Although the Company's operations are conducted in Canadian dollars, it has entered into contracts and/or agreements that require payment in United States dollars or Peruvian nuevo sols. Management believes that foreign currency risk derived from currency conversions is negligible and, therefore, does not hedge its foreign currency risk.

**c. Price risk**

The Company is not subject to significant price risk.

**8. Trade payables and accrued liabilities**

Trade payables of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities and amounts payable for operating and financing activities. The usual credit period taken for trade purchases is between 30 to 90 days. The Company's trade payables and accrued liabilities balance as at June 30, 2011 is due within one year.

**9. Share capital**

Authorized, issued and outstanding as of June 30, 2011 and 2010: 10,000 issued and registered shares at a value of 1 Peruvian nuevos sols per share.

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**10. Exploration and evaluation expenditures**

The evaluation and exploration expenses for the Company are broken down as follows:

<b>Minerals - Silver</b>					
<b>Properties</b>	<b>Princesa- Bilunani Belt,</b>				<b>Total</b>
	<b>Other</b>	<b>Princesa</b>	<b>Pilunani</b>	<b>Cullquimayo</b>	
Licenses	-	13,198	60,184	55,960	129,342
Legal expenses	-	145	657	611	1,413
Litigation provision	-	-	-	159,574	159,574
<b>June 30, 2010</b>	<b>-</b>	<b>13,343</b>	<b>60,841</b>	<b>216,145</b>	<b>290,329</b>
Acquisition costs					
Logistics	-	-	622	-	622
<b>June 30, 2011</b>	<b>-</b>	<b>-</b>	<b>622</b>	<b>-</b>	<b>622</b>
<b>Cumulative to</b>					
<b>June 30, 2011</b>	<b>870,063</b>	<b>193,128</b>	<b>324,570</b>	<b>388,864</b>	<b>1,776,624</b>

(a) Princesa-Pilunani Belt properties, Peru

The Princesa-Pilunani Belt properties consist of 19 contiguous or closely adjacent claims totalling 13,900 hectares, containing the following:

<b>Princesa-Pilunani Belt Property Claim List</b>		
Pilunani claim	One claim 1,000 hectares	Acquired by agreement (note 10(a)(i))
Princesa claims	Five claims 2,500 hectares	Acquired by staking (note 10(a)(ii))
Other Princesa-Pilunani belt properties	Thirteen claims 10,400 hectares	Acquired by staking

- (i) The Company owns a 100% undivided interest in a 1,000-hectare mineral property, located in the Puno Mining District, southeastern Peru.
- (ii) In August 2005, the Company increased its holdings in the Pilunani area by staking the Princesa properties in an area northwest of the main Pilunani claim.

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(b) Cullquimayo properties, Peru

The Cullquimayo properties consist of 13 claims, totaling 8,400 hectares.

Pursuant to a May 2005 agreement, three properties totaling 1,600 hectares were acquired under an option requiring an initial payment of US \$5,000 per property (paid), payments of US \$10,000 per property in years two (paid) and three (paid), and US \$50,000 per property in year four. The other ten properties totaling 6,800 hectares were acquired by staking.

In year four, the optionor of the three optioned properties showed unwillingness to conclude the transaction and receive the final option payment. The Company had incurred \$172,719 in exploration expenditures associated with these properties during the year ended June 30, 2009. Subsequently, the optionor requested completion of the final payment of US \$150,000 (note 14) and, pursuant to an arbitration process in Peru, the Company has been considered to still owe this amount. The Company is seeking some additional information from the arbitrators. Exploration expenditures made on this property during the year ended June 30, 2010 totaled \$56,572.

(c) Title to mineral property interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

(d) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

**11. Segmented information**

At June 30, 2011, the Company's operations comprise a single reporting operating segment engaged in mineral exploration in Peru. As the operations comprise a single reporting segment, amounts disclosed in these financial statements also represent operating segment amounts.

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**12. Related party transactions**

During the year ended June 30, 2011, the sole shareholder, SAE, has funded all operations for the Company including administrative and property maintenance expenses. As at June 30, 2011, the balance due to SAE of \$1,623,273 (2010 - \$1,613,077) is unsecured and without interest or stated terms of repayment.

The remuneration of directors and other members of key management during the year is \$nil (2010 - \$nil).

**13. Income taxes**

Significant components of the Company's deferred tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	2011	2010
	\$	\$
Deferred income tax assets		
Non-capital losses carried forward	1,268,364	1,270,320
	1,268,364	1,270,320
Valuation allowance for deferred income tax assets	(1,268,364)	(1,270,320)
Deferred income tax assets, net	-	-

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2011	2010
	\$	\$
Income tax benefit computed at statutory rates	1,956	(56,306)
Items not deductible for tax purposes	236	49,687
Change in timing differences	(236)	(49,687)
Change in valuation allowance	(1,956)	56,306
	-	-

The Company has \$1,640,099 in operating losses that may be carried forward indefinitely to apply against future years' income for Peruvian income tax purposes.

The valuation allowance reflects the Company's estimate that the tax assets more likely than not will not be realized.

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**14. Contingency**

In February 2010, the Company was informed that a claim was filed with respect to payment of US\$150,000 owed by the Company as consideration of the acquisition of mineral interests. The Company has accrued this amount.

**15. Subsequent event**

**Qualifying Transaction**

Details of the Qualifying Transaction are provided in note 5 of these financial statements.