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11.0 PRODUCT SALES

11.1 Sale of Doré Bullion

GCM will contract with a refinery for refining services and sell the products from the doré bullion. The refinery will have the capacity, the facilities, and the necessary permits and authorizations to perform the obligations and services under a formal contract in a professional manner and in accordance with generally accepted standards.

GCM will use the “door to door” system, in which the refiner/purchaser will be responsible for the transportation and insurance costs when it accepts the doré from Guanaco.

11.1.1 Weighing, Melting, Sampling, and Company Representative

When the refiner accepts a delivery of doré at the refining location, the refiner must promptly weigh and record the weight for each doré bar in the delivery. Within 3 business days of accepting a delivery of doré the refiner will conduct a melt or melts weighing up to 2,000 oz of doré. From each melt conducted in respect of a delivery of doré, the refiner must take samples of approximately 5 g each which will constitute the refiner’s samples, the company’s, and the Umpire’s samples.

GCM will appoint a representative to supervise the weighting, melting, and sampling operations at the refinery.

The refinery must refine the doré immediately after determination of the after melt weight and the allocation of the samples.

11.1.2 Assay Results

Within 3 business days of accepting a delivery of doré, the refiner must for each melt conducted in respect of that delivery of doré use the refiner’s samples to conduct an assay.

From time to time and within 5 business days of a delivery of doré, GCM may give notice to the refiner that it wishes to conduct an assay on a company sample in respect of a melt conducted for that delivery of doré (at a laboratory of the company’s choice).

The refinery will have the final results available 5 business days after completion of homogenization and sampling.

11.1.3 Return of Metals and Settlement

The weights after melt and the agreed final assay between the refinery and GCM will be the basis for metal settlement.

The refiner must return to GCM not less than 99.9% of fine gold and 99% of fine silver from each melt conducted in respect of a delivery of doré.

Up to 90% of the indicated gold content of each shipment will be credited to an unallocated metal account with the refinery 1 business day after arrival of the shipment of doré at the refinery, as provisional settlement.

The final settlement will result from a metal balance and from the difference between the provisional settlement and the definitive outcome and it will be credited to the unallocated metal account with the refinery on the same business day as the agreed final assay results are received by the refinery.

11.1.4 Pricing

The metals will be priced according to the following:

- Gold at the afternoon fixing in US\$ per troy ounce of the London Bullion Market less US\$ 0.25 per oz gold
- Silver at the fixing in US\$ per troy ounce of the London Bullion Market less US\$0.01 per oz silver

11.1.5 Payment

All payments and transfers will be executed within 2 business days after pricing according to GCM's instructions. Payments due to the refinery will be deducted from the proceeds of the metal sales.

11.1.6 Description of the Sales Product

GCM sales product will be doré bullion which is a solid solution of gold, silver, and some impurities. In the case of Guanaco, the principal impurity is copper, with some iron and selenium, all of which will be eliminated in the refining process.

11.1.7 Annual Production

Doré: 5,800 to 6,100 kg/year

Gold: 73,500 to 76,500 oz/year

Silver: 116,000 to 120,000 oz/year

11.1.8 Bars of Doré

- Weight of doré bars 15 to 20 kg
- Gold grade 35 to 38%
- Silver grade 56 to 60%

11.1.9 Refinement of Doré

GCM doré will have impurities such as copper, iron, selenium, and others. Gold and silver are sold in the metal market as:

- Purity of Gold - 99.99%
- Purity of Silver - 99.9%

In order to obtain these levels of purity, the doré metal must be refined. Industrial refining of doré metal is carried out in stages. The first stage is a reduction of the impurities by a series of stages of acid leaching and then electro-winning to obtain gold and silver with saleable purity.

11.1.10 Metallurgical Deduction

The refining process has different efficiencies depending on the different processes, with resulting losses of gold and silver to the product compared to the gold and silver contained in doré; these losses are called “metallurgical deductions”. In this report the metallurgical deductions are considered to be part of the process cost. The maximum losses for process efficiency are negotiated and stated in the contract.

11.1.11 Delivery of Doré Bars

Each bar of doré is marked with a correlative number and GCM initials. Once the bar is identified, it is weighed and a chemical analysis for gold and silver will be performed.

- A certificate-sheet will be prepared with:
- Identification of the bars
- Net weight of each bar
- Grades of gold and silver per bar
- Content of gold and silver per bar
- Quantity of bars
- Total weight of the bars
- Total ounces of gold and silver

Bars are packed in individual wooden boxes that are closed and sealed with iron bands. Each box will be identified with the number of the bar and the gross weight of each box.

A shipping certificate will be prepared indicating:

- Identification of the bars
- Net weight of each bar
- Weight of each box (including the packing elements)
- Numbers of the seals

- Number of the shipping document.

11.2 Refining Contract and/or Sales Terms

The refinery will arrange for transportation and insurance from the Guanaco mine to the vault of the refinery. The cost for this service will be charged to the mine without mark-up by the transport agent.

The refinery will bear the risk for the doré from the time it is delivered by the GCM to the transport company at the Guanaco mine. Transfer of risk of loss will take place at the point of delivery, which is the vault room of the Guanaco mine. The refinery will insure the doré bars against the usual risk of transport and storage from the moment the responsibility passes to the refinery.

The refiner will obtain and maintain an insurance policy with a reputable insurance company to protect its obligations under the agreement. Upon reasonable request by GCM, the refiner must provide evidence that the insurance policy required is in effect.

The refining contract includes the following scope:

- General insurances for handling and transportation from GCM's gold room door, transportation, and temporary storage until the delivery of the refined metals.
- National transportation of the doré from GCM's gold room to the export airport. This transportation will be in armoured security trucks to the local airport (if internal transportation between Antofagasta and Santiago is by air) or in armoured security trucks to the Santiago airport (if by land).
- Customs clearance for export.
- International transportation will be in cargo aircraft to the country where the refinery is located.
- Customs clearance for import into the refinery's country.
- National transportation in the refinery's country.
- Refining of the doré and separation of gold and silver.
- GCM will have a representative in the country where the refinery is located who will be present during the weighing, mixing, and sampling, in order to certify the results from the refinery. This representative will also represent GCM in all sales activities.
- The refinery will be responsible for and will insure the bars from receipt until the final sale of each shipment.

- The refinery will mix, sample, and analyze each shipment (within three working days of receipt) and will deliver a weight and grade certificate, for the process of comparison of GCM's and the refinery's analyses, in order to agree the results.
- Umpire: if an agreement cannot be reached using the GCM and the refinery results, arbitration using a third laboratory will be required. GCM's representative will take the third sample to the Umpire and will perform the reconciliations with the refinery.
- Terms of Payment:
 - 90% of the shipment value will be paid one working day after the weight and grade are agreed.
 - The balance due will be paid once the refining process is complete.
 - Payments will be by bank transfer.

11.3 Transportation Security

The contract will be set up so that security during transportation will be the responsibility of the refiner. Doré bullion will be delivered to the transport company at GCM's gold room door.

11.4 Hedging Policy

As shown in Section 11.6, Price Forecast, the risk of a negative variation in the gold price is very low, however, the company will implement a hedging policy which will minimize the price risk and will assure the future sale prices.

11.5 Cash Flow

Table 11.5-1 shows the estimated cash flow in thousand of US Dollars and this is described in more detail in Section 16, Financial Evaluation.

Table 11.5-1: Cash Flow by Year

	Year							
	2010	2011	2012	2013	2014	2015	2016	2017
Cash Flow (k US\$)	(3,440)	(48,592)	25,161	35,557	26,418	13,639	7,648	1,019
Final Product								
Au (koz)	5	31	65	64	57	39	18	0
Ag (koz)	16	93	122	102	95	77	45	0

11.6 Price Forecast

Table 11.6-1 shows the forecast average gold and silver prices by year taken from Section 16, Financial Evaluation.

Table 11.6-1: Forecast Gold and Silver Prices by Year

	Year						
	2010	2011	2012	2013	2014	2015	2016
Gold Price Forecast	1,127	1,075	1,038	1,010	990	974	962
Silver Price Forecast	15.15	15.15	15.15	15.15	15.15	15.15	15.15

There are several different ways to forecast metal prices and estimates are usually made by establishing assumptions about the future behaviour based on the past and present information.

The simplest way of forecasting is based on the assumption that the future behaviour will be exactly the same as it is in the present. There are no factors that could affect the Spot Price of gold other than the risk free rate. This means that every year, the gold price will increase at the last known risk free rate.

Considering an annual risk free rate of 3.00% and the current gold and silver Spot Prices of US\$1,202.00 and US\$18.02 respectively, the results shown in Table 11.6-2 are obtained.

Table 11.6-2: Forecast Gold and Silver Prices using 3.00% Risk Free Rate

	Year						
	2010	2011	2012	2013	2014	2015	2016
Gold Price Forecast	1,202.00	1,238.06	1,275.20	1,313.46	1,352.86	1,393.45	1,435.25
Silver Price Forecast	18.02	18.56	19.12	19.69	20.28	20.89	21.52

A more complex and sophisticated method is to use the Current Forward curve, which not only considers the risk free rate but also the volatility of the price. The Forward Price is commonly used to estimate future prices and is used in over the counter transactions. Banks and brokers usually use the Forward Price as a reference for Forward Contracts which are less liquid than Future Contracts.

Table 11.6-3 shows the information from Bloomberg (as at 07 July 2010) for the Current Forward curve for gold and silver until the year 2014.

Table 11.6-3: Gold and Silver Current Forward Prices – Source Bloomberg

<HELP> for explanation. Equity CPF
 Right click on summary data or analyst estimates for historical price graph

95) Chart 96) Products 97) Download Page 1/4 Commodity Price Forecast

Contributor Composite	As Of	07/07/10	Ticker Type	Actual					
	Spot	Q3 10	Q4 10	Q1 11	Q2 11	2011	2012	2013	2014
1) Gold Spot									
Forecast		1175	1197	1219	1211	1223	1035	988.75	946.25
Current Fwd	1202	1196	1198	1201	1204	1206	1226	1261	1306
2) Silver Spot									
Forecast		18.50	19.00	18.25	19.00	19.00	16.45	15.40	16.19
Current Fwd	18.02	17.85	17.92	17.95	17.99	18.00	18.13	18.29	18.43
3) Platinum Spot									
Forecast		1600	1705	1560	1620	1655	1550	1550	1351
Current Fwd	1525	1516	1522	1523	1523	1523			
4) Palladium Spot									
Forecast		450.00	462.50			500.00	427.50	405.00	360.00
Current Fwd	448.00	440.04	441.42	441.90	441.90	441.90			
5) Aluminum c/lb									
Forecast		95.00	94.00	94.50	98.00	96.00	100.00	100.00	96.00
Current Fwd	90.08								
6) Aluminum \$/mt									
Forecast		2094	2100	2123	2200	2200	2346	2315	2425
Current Fwd	1995	1984	2012	2037	2062	2072	2149	2213	2263

41) Energy 42) Agriculture 43) Metals

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
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Analysts from banks and brokers use different complex tools to estimate gold and silver future prices. They often use regression models to explain the price behaviour and predict future prices. Tables 11.6-4 and 11.6-5 show the estimates made by analysts in the market for gold and silver respectively (at 07 July 2010).

One of the simplest ways to estimate future prices is to use the mean of the estimations made by analysts in the market (this number is shown in Tables 11.6-4 and 11.6-5). It would not be appropriate to use a number from a single analyst because the range between the low and high estimates may be very wide.

Table 11.6-4: Gold Forecasts and Averages – Source Bloomberg

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 Right click on summary data or analyst estimates for historical price graph

95) Chart 96) Contributors 97) Histogram 98) Download Page 1/2 Commodity Price Forecast

Gold Spot As Of 07/07/10 Ticker Type Actual

		Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	
Current Price 1202.3	Median	1175	1197	1219	1211	1227	1140	
	Mean	1184	1214	1198	1225	1192	1235	
	Bloomberg Wgt Avg	1213	1276	1231	1253	1219	1267	
	High	1430	1648	1453	1612	1543	1834	
	Low	1008	1006	1005	1007	1000	1000	
	Current Fwd	1196	1198	1201	1204	1207	1211	
Firm	18 Analyst(s)	As Of	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
1) Danske Bank A/S	C. Tuxen	07/05/10	1200	1150	1100	1050	1000	1000
2) UniCredit Markets & Invest	J. Hitzfeld	07/01/10	1200	1300	1250	1200		
3) Erste Bank AG/Austria	R. Stoeferle	06/28/10	1352	1648	1453	1612	1543	1834
4) BNP Paribas	A. Tremblay	06/16/10	1210	1245	1225	1250	1230	1275
5) Commerzbank AG	E. Weinberg	06/02/10	1050	1100				
6) Barclays PLC	B. Comdty	05/19/10	1215	1235				
7) Deutsche Bank AG	D. Brebner	04/09/10	1150	1175	1250	1400	1300	1050
8) Bank of America Merrill Ly	M. Widmer	03/30/10	1100	1150				
9) National Australia Bank Ltd	B. Westmore	03/24/10	1171	1195	1213	1223	1227	1231
10) LGT Capital Management/Pf	B. Dincer	03/03/10	1175	1225				
11) ANZ Banking Group Ltd/Mel	M. Pervan	02/25/10	1135	1110	1090	1065	1035	1025
12) BMO Capital Markets Corp	B. Melek	02/02/10	1150	1150				

41) Quarterly Forecast 42) Yearly Forecast

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Table 11.6-5: Silver Forecasts and Averages– Source Bloomberg

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 Right click on summary data or analyst estimates for historical price graph

95) Chart 96) Contributors 97) Histogram 98) Download Page 1/2 Commodity Price Forecast

Silver Spot As Of 07/07/10 Ticker Type Actual

		Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	
Current Price 18.01	Median	18.50	19.00	18.25	19.00	19.00	20.50	
	Mean	18.30	19.33	18.73	19.83	18.63	21.80	
	Bloomberg Wgt Avg	18.14	19.06	18.68	19.76	18.80	21.88	
	High	22.50	23.50	22.00	25.00	21.00	29.00	
	Low	15.00	16.40	16.40	16.30	15.90	15.90	
	Current Fwd	17.85	17.92	17.95	17.99	18.01	18.04	
Firm	13 Analyst(s)	As Of	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
1) UniCredit Markets & Invest	J. Hitzfeld	07/01/10	18.50	19.50	18.50	19.50		
2) BNP Paribas	A. Tremblay	06/16/10	18.10	18.60	18.00	18.50	19.00	20.50
3) Commerzbank AG	E. Weinberg	06/02/10	17.00	18.50				
4) Barclays PLC	B. Comdty	05/19/10	18.50	18.80				
5) Deutsche Bank AG	D. Brebner	04/09/10	19.00	20.00	22.00	25.00	21.00	29.00
6) Bank of America Merrill Ly	M. Widmer	03/30/10	16.50	19.00				
7) ANZ Banking Group Ltd/Mel	M. Pervan	02/25/10	16.60	16.40	16.40	16.30	15.90	15.90
8) BMO Capital Markets Corp	B. Melek	02/02/10	20.50	20.50				
9) Prestige Economics LLC	J. Schenker	01/25/10	18.50	19.00				
10) Landesbank Baden-wuertte	T. Proettel	01/13/10	19.00	20.00				
11) Standard Chartered Bank	D. Smith	01/08/10	15.00					
12) Societe Generale	D. Wilson	12/11/09	22.50	23.50				

41) Quarterly Forecast 42) Yearly Forecast

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
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One of the most accurate sources of information for estimating the future price of gold and silver is to use Future Contracts which are currently trading in the market and are totally liquid. This is a much more conservative way to look at the Price Forecast since production can be sold in the futures market at a fixed price which is known in advance.

This future contract pricing is commonly used to estimate the future behaviour of gold and silver prices and the data resulting from these future contracts are input into linear regression models to estimate prices that are not yet trading or do not have liquidity. The June Future Price is commonly used as the average price for the year.

Tables 11.6-6 and 11.6-7 show the gold and silver Future Contracts prices until the year 2015 (at 07 July 2010).

Table 11.6-6: Gold Future Contracts Prices – Source Bloomberg

<HELP> for explanation. ComdtyCT

1 <GO> to Configure Columns

View **Futures** 1) Edit Columns 2) Chart on CCRV

GOLD 100 OZ FUTR Pricing Date **07/07/10** Contract Table

COMEX division of NY Session **COMB** Sort By **Expiration**

Contracts 20/20 Tot Volume 133792 Open Int 577732

Ticker	Last	Change	Time	Bid	Ask	Open Int	Volume	Previous
5) GCU0 Sep10	1199.80 s	+3.80	10:12	1161.50	1298.50			1196.00
6) GCV0 Oct10	1204.50	+7.50	16:40	1204.70	1204.90	25175	2418	1197.00
7) GCZ0 Dec10	1206.50	+7.60	16:35	1206.70	1206.90	96879	18276	1198.90
8) GCG1 Feb11	1204.60 s	+3.70	14:50	1208.60	1208.80	22124	563	1200.90
9) GCJ1 Apr11	1206.40 s	+3.60	14:37	1210.40	1210.60	16990	101	1202.80
10) GCM1 Jun11	1208.30 s	+3.40	15:54	1212.40	1212.60	12949	173	1204.90
11) GCQ1 Aug11	1210.40 s	+3.40	14:41	1214.40	1214.80	6411	146	1207.00
12) GCV1 Oct11	1212.70 s	+3.30	14:41	1216.40	1217.10	7281	30	1209.40
13) GCZ1 Dec11	1215.20 s	+3.20	14:51	1219.30	1219.70	13452	561	1212.00
14) GCG2 Feb12	1217.90 s	+3.00	14:41	1219.60	1223.10	3753	275	1214.90
15) GCJ2 Apr12	1221.00 s	+2.90	14:41	1220.40	1226.90	4988		1218.10
16) GCM2 Jun12	1224.30 s	+2.90	14:41	1221.10	1230.50	10107	57	1221.40
17) GCZ2 Dec12	1237.30 s	+2.60	13:51	1235.20	1243.60	10849	382	1234.70
18) GCM3 Jun13	1253.60 s	+2.20	14:41	1253.40	1277.30	8669	50	1251.40
19) GCZ3 Dec13	1272.80 s	+2.20	12:05	1263.50	1301.90	4943	54	1270.60
20) GCM4 Jun14	1295.40 s	+1.70	14:41	1290.90	1347.60	2613		1293.70
21) GCZ4 Dec14	1320.20 s	+1.50	14:41	1318.20	1352.80	6455	2	1318.70
22) GCM5 Jun15	1349.20 s	+1.50	14:41	1200.00	1500.00			1347.70

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Table 11.6-7: Silver Future Contracts Prices – Source Bloomberg

<HELP> for explanation, <MENU> for similar functions. ComdtyCT

1 <GO> to Configure Columns

View **Futures** 1) Edit Columns 2) Chart on CCRV Contract Table

SILVER FUTURE Pricing Date **07/07/10** Sort By **Expiration**

COMEX division of NY Session **COMB**

Contracts 19/19 Tot Volume 23950 Open Int 118962

Ticker	Last	Change	Time	Bid	Ask	Open Int	Volume	Previous
4) SIQ0 Aug10	17.987 s	+145	14:56	18.020	18.040	181	175	17.842
5) SIU0 Sep10	18.040	+183	16:43	18.035	18.045	65873	23195	17.857
6) SIZ0 Dec10	18.090	+173	16:40	18.090	18.105	23352	425	17.917
7) SIF1 Jan11	18.074 s	+143	13:57	18.100	18.125	201	5	17.931
8) SIH1 Mar11	18.100 s	+142	15:38	18.130	18.150	9832	20	17.958
9) SIK1 May11	18.121 s	+142	14:35	18.150	18.170	7646		17.979
10) SIN1 Jul11	18.140 s	+142	14:35	18.165	18.190	3783		17.998
11) SIU1 Sep11	18.156 s	+142	09:46	18.185	18.205	423	2	18.014
12) SIZ1 Dec11	18.185 s	+142	11:51	18.210	18.240	3508	27	18.043
13) SIF2 Jan12	18.197 s	+142	14:35	18.105	18.370			18.055
14) SIH2 Mar12	18.220 s	+142	14:35	18.215	18.275			18.078
15) SIK2 May12	18.240 s	+142	14:35	16.000	20.000			18.098
16) SIN2 Jul12	18.259 s	+142	14:35	18.235	18.305	862		18.117
17) SIZ2 Dec12	18.315 s	+142	14:35	18.250	18.430	807		18.173
18) SIN3 Jul13	18.405 s	+142	14:35	18.350	18.605	151		18.263
19) SIZ3 Dec13	18.459 s	+142	12:12	18.370	18.680	997	6	18.317
20) SIN4 Jul14	18.546 s	+142	14:35	18.380	18.745	20		18.404
21) SIZ4 Dec14	18.599 s	+142	14:35	18.470	18.880	263		18.457

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