

Notes to the Consolidated Financial Statements

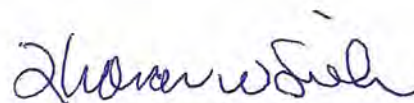
2.2 Significant Accounting Judgments, Estimates, and Assumptions for Picchu Rio 4 Concession containing 360 hectares in Urubamba River Basin, Peru

- Future Production Estimates – which include proved and probable reserves, resource estimates and committed expansions: **748,900 ounces**
- Expected future commodity prices, based on current market price, forward prices and the Group's assessment on the long-term average price: **\$1,500/ounce**
- Future cash costs of production, capital expenditure and rehabilitation obligations: **\$300/ounce**

Assumptions considered in the above numbers

- The carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, and goodwill may be affected due to changes in estimated cash flows - **Yes**
- Depreciation and amortization charges in profit or loss may change where such charges are determined using the units of production method, or where the useful life of the related assets change - **Yes**
- Capitalized stripping costs recognized in the statement of financial position or charged to profit or loss may change due to changes in stripping ratios - **Yes**
- Provisions for the rehabilitation and environmental provisions may change – where changes to the reserve estimates affect expectations about when such activities will occur and the associated costs of these activities - **Yes**
- The recognition and carrying value of deferred income tax assets may change due to changes in the judgments regarding the existence of such assets and in estimates of the likely recovery of such assets - **Yes**

The discounted net present value (10%) of Picchu Rio 4 concession is 137 million US dollars based on 20 year production life with similar tax treatment, comparable expenses and cash gold prices of \$1,500 /ounce flat.



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Dec 14, 2012

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Possible Gold Reserves

PICCHU RIO 4 PLACER GOLD CONCESSION

YANATILE RIVER BASIN, PERU

By: Thomas Sieh, Geologist & Noel MacAnulty, Geologist

April 15, 2012

The Picchu Rio 4 placer gold concession covers 794 acres (360.34 hectares) along the narrow valley floor of the Yanatile River of Peru, just upstream of the confluence with the Urubamba River. This report looks at possible gold reserves below 15 meters to bedrock. Alluvial gravel, sand, and clay accumulated in the valley floor in the stretch of the river covered by the concession due to a sharp lowering of the river gradient which caused river velocity to decrease significantly. In 2003, Vista Continental drilled exploration holes to a depth of 90 feet on the northern edge of this concession and was still in alluvial material. David Heyl, in an updated geologic report in 2002, made extensive studies in this part of the river basin and determined that at least 30 meters of sand, gravel, and clay were present above bedrock. Numerous studies (see attached listing) over the past twenty years have documented the presence of fine gold in amounts up to 0.5 grams per cubic yard and abnormally large quantities of black sands containing other potentially valuable minerals in the upper 15 meters of alluvial material of the Yanatile River. High specific gravity of the gold causes it to settle thru unconsolidated alluvial gravels so higher gold concentrations should be expected at depth below 15 meters with grade increasing significantly at bedrock.

In Mr. Sieh's experience as a Research Geologist, he has conducted test drilling in unconsolidated formations in South Dakota (glacial till) for the South Dakota Geological Survey and also test drilling in alluvial deposits in north central Texas for the Texas Water Development Board that showed the heavier minerals present in gravels and sand are always present just above the base of bedrock. In his experience mining gold successfully for over 12 years in Alaska, the

highest concentration of gold was always found on top of the bedrock or the cracks and fissures in the upper few feet of the bedrock floor. I expect this is the case in the Yanatile River Valley.

It is projected that the Picchu Rio 4 concession to contain possible reserves of 28,967,000 cubic yards of "pay gravels" under a surface area of 400 acres (see table 2) and located below 45 feet. This can be recovered with a well planned operation using properly designed recovery systems. Maintaining a safe pit gradient of 45 degrees will limit the reserves to 50% of the total area of the concession. The possible reserves can be calculated as follows:

$$400 \text{ acres} \times 45 \text{ ft. thickness,} \times 43,560 \text{ cubic feet per acre} = 28,967,000 \text{ cubic yards}$$

The thickness of the possible reserves can be reached with a normal recovery system up to 90 feet. This is confirmed this month by Pat Whelan, independent placer mining engineer with over 30 years of operational experience. Detailed drilling programs and sampling would confirm the existence of these deeper reserves, and bring them into the probable and proven category. This expense will be justified if the near surface gold grades continue to be economic and in the range of 0.5 grams/yard.

$$0.5 \text{ grams of gold per cubic yard,} \times 28,967,000 \text{ cubic yards} = 14,484,000 \text{ grams}$$

This total is then divided by 31.7 grams per ounce which equals possible reserves of 456,900 ounces of gold or \$685 million in future revenues (based on an average gold price of \$1500). Sales of other minerals in the black sands could add another \$150 million in value. Most of the gold on the concession is reported to be 200 to 300 mesh size, and thus more difficult to recover without using extra equipment and care. On this concession, more coarse gold has been found because of the close proximity to the source of the gold, being at least 4 granadiortic intrusions.

The proven and probable reserves above 15 meters were calculated in previous studies is determined to be 292,000 ounces determined by several, independent geologists and mining engineers completed in 2008, 2009, and 2010, using conservative production parameters. (.2grams per yard of gold).

We have combined the proven, probable, and possible gold reserves, and they would yield a total of 748,900 ounces of gold or \$1.12 billion in future revenue @ \$1500 per ounce on this concession.

The other associated minerals in black sands could be very significant if equipment and processes are designed to process these minerals. The value of these could be in excess of \$250 million in future revenue.

This would yield a total of over 1.37 billion dollars in future revenue making this property very valuable with a long production life.

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Attachments

1. Historical Geological, and Engineering Studies of Picchu #4 & Adjacent Concessions
2. Map showing the outline of possible gold reserves on Picchu Rio #4
3. Resumes of geologists

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