



# Introduction and Admission to Trading on AIM

December 2004

Nominated Adviser and  
Broker

**DURLACHER**



This document is important and requires your immediate attention. If you are in any doubt about the contents of this document and the action you should take, you should consult a professional adviser authorised under the Financial Services and Markets Act 2000 who specialises in the acquisition of shares and other securities. If you have sold or otherwise transferred all of your shares in Uruguay Mineral Exploration Inc., you should immediately send this document to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This document is an admission document in relation to AIM. Whilst it has been drawn up in accordance with the Public Offers of Securities Regulations 1995 (as amended) (“the POS Regulations”) it does not comprise an offer or invitation to the public to subscribe for or to purchase the common shares of the Company for the purpose of the POS Regulations. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in it is in accordance with the facts, and there is no information the omission of which is likely to affect the import of such information. The Directors, whose names are set out on page 6, accept responsibility for the contents of this document accordingly.

Application will be made for all the Common Shares of Uruguay Mineral Exploration Inc. to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. In addition, the rules of AIM are less demanding than those of the Official List of the UK Listing Authority (“the Official List”). AIM securities are not admitted to the Official List. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. It is emphasised that no application is being made for admission of the Common Shares to the Official List. Furthermore, the London Stock Exchange has not examined or approved the contents of this document. The Common Shares are listed on the TSX Venture Exchange in Canada and, apart from the application for admission to AIM, the Common Shares are not dealt in on any other recognised investment exchange and no other such applications have been made. The TSX Venture Exchange takes no responsibility for the contents of this document.

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# Uruguay Mineral Exploration Inc.

*(Subsisting in the Yukon, Canada under the Business Corporations Act (Yukon) with Corporate Access Number 29298)*

## Introduction and Admission to trading on AIM

*Nominated Adviser and Broker*

# DURLACHER

Share Capital immediately following Admission

<u>Authorised Number</u>		<u>Issued and Fully Paid Number</u>
Unlimited	Common Shares of no par value	43,259,913

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The Common Shares have not been and will not be registered under the United States Securities Act of 1933, as amended, or under any of the relevant securities laws of any state or district of the United States, Australia, Japan, the Republic of South Africa or the Republic of Ireland. Accordingly unless an exemption under such Act or other laws is available, the Common Shares may not be offered, sold, transferred or delivered, directly or indirectly, into or from the United States, Australia, Japan, the Republic of South Africa or the Republic of Ireland or to or for the account or benefit of any national, resident or citizen of the United States, Australia, Japan, the Republic of South Africa or the Republic of Ireland.

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INVESTMENT IN THE COMPANY INVOLVES A HIGH DEGREE OF RISK AND THE ATTENTION OF POTENTIAL INVESTORS IN PARTICULAR IS DRAWN TO THE RISK FACTORS SET OUT IN PART III OF THIS DOCUMENT.

Copies of this document will be available during normal business hours on any day (except Saturdays, Sundays and public holidays) free of charge from Durlacher Limited at 155 Moorgate, London EC2M 6XB for one month from the date of this document.

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## KEY INFORMATION

The following information is derived from and should be read in connection with the full text of this document and in particular with Part III of this document.

- Uruguay Minerals is a gold producer and exploration company focused on identifying and developing mineral opportunities in Uruguay. It operates the only producing gold mine in Uruguay, the cash flow from which is used to finance the exploration programme
- The Directors believe that Uruguay has great, and so far largely unexplored, potential for the discovery and economic production of a variety of mineral resources including gold, silver, nickel, copper, lead, zinc and diamonds

### *Minas de Corrales Gold Project ("MCGP"): Gold production and exploration*

- The principal business activity of the Company is the operation and development of the MCGP
- The MCGP comprises the operating San Gregorio gold mine and processing plant, the recently developed Arenal deposit (currently the largest known gold resource in Uruguay) and other gold deposits

### *Other Exploration*

- Apart from the MCGP, the Company has a number of other exploration initiatives underway for gold, copper, nickel and diamonds. These represent significant additional opportunities for organic growth in the event of exploration success

### *Database*

- the Company has compiled an electronic database of geological information drawn from a wide variety of sources
- the database includes significant amounts of geochemical and geophysical data gathered by both public and private sector explorers in Uruguay over more than two decades
- The Common Shares are currently listed on the TSXV
- Admission to AIM forms part of a long term growth strategy to heighten awareness of the Company
- The Group's board and management team have substantial experience in mine development, operation, finance and exploration

## EXPECTED TIMETABLE AND KEY STATISTICS

Publication date of this document . . . . .	9 December 2004
Admission and dealings in the Common Shares expected to commence . . . . .	15 December 2004
Number of Common Shares in issue at the time of Admission . . . .	43,259,913
Number of Common Shares in issue assuming exercise of all existing options and warrants . . . . .	49,126,413

## DEFINITIONS

The following definitions apply throughout this Admission Document, unless the context requires otherwise.

<b>“Admission”</b>	the admission of the Common Shares to trading on AIM and such admission becoming effective in accordance with Rule 6 of the AIM Rules
<b>“AIM”</b>	a market operated by the London Stock Exchange
<b>“AIM Rules”</b>	the rules governing the admission to and operation of AIM as published by the London Stock Exchange from time to time
<b>“Board” or “Directors”</b>	the directors of the Company whose names are set out on page 6 of this Admission Document
<b>“CDI”</b>	CREST Depository Interest representing an entitlement to Common Shares, general details of which are contained in the CREST International Manual
<b>“Code”</b>	the UK City Code on Takeovers and Mergers
<b>“Common Shares”</b>	common shares of no par value in the capital of the Company
<b>“Company” or “Uruguay Minerals”</b>	Uruguay Mineral Exploration Inc., a company subsisting under the laws of the Yukon, Canada with corporate access number 29298
<b>“Competent Person’s Report”</b>	the report dated 9 December 2004 by RSG set out in Part II of this document
<b>“CREST”</b>	the computerised settlement system to facilitate the transfer of title to shares in uncertificated form in the UK operated by CRESTCo Limited
<b>“Durlacher”</b>	Durlacher Limited
<b>“Executive Directors”</b>	Christopher John Clark and Michael Rex Schwabe
<b>“Group”</b>	the Company and its subsidiaries at the date of this document
<b>“IMHL”</b>	International Mining Holdings Limited, a wholly owned subsidiary company of Uruguay Minerals’, registered in Barbados with company number 13738
<b>“JORC Code”</b>	the Australasian Code for Reporting of Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
<b>“London Stock Exchange” or “LSE”</b>	London Stock Exchange plc
<b>“Nominated Adviser”</b>	Nominated Adviser as defined in the AIM Rules
<b>“Non-Executive Directors”</b>	John Christopher Morris, Professor Roger David Morton and Anthony (Tony) Patrick Shearer
<b>“Official List”</b>	the Official List maintained by the UK Listing Authority pursuant to the Financial Services and Markets Act 2000
<b>“Options”</b>	options to subscribe for Common Shares under the Stock Option Plan
<b>“POS Regulations”</b>	the Public Offers of Securities Regulations 1995 (as amended)
<b>“RSG”</b>	RSG Global Pty Ltd
<b>“Stock Option Plan”</b>	Uruguay Mineral Exploration Inc. Stock Option Plan, details of which are set out in paragraph 4 of Part V of this document

<b>“Shareholder(s)”</b>	holder(s) of Common Shares
<b>“TSXV”</b>	TSX Venture Exchange
<b>“UK”</b>	the United Kingdom of Great Britain and Northern Ireland
<b>“UK Companies Act”</b>	the Companies Act 1985 of the UK (as amended)
<b>“UK Listing Authority”</b>	the Financial Services Authority, acting in its capacity as a competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 including where the context so permits any committee, employee or servant of such authority to whom any function of the UK Listing Authority may from time to time be delegated
<b>“Uruguay”</b>	the Oriental Republic of Uruguay
<b>“Yukon Act”</b>	Business Corporations Act (Yukon Territory)
<b>“£” or “pence” or “p”</b>	UK currency

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Anthony (Tony) Patrick Shearer, Chairman Christopher John Clark, President and CEO Michael Rex Schwabe, Vice President Exploration Prof Roger David Morton, Non-executive Director John Christopher Morris, Non-executive Director
<b>General Counsel and Secretary</b>	Sara-Lane Sirey
<b>Registered Office</b>	Campion Macdonald 200–204 Lambert Street Whitehorse Yukon Territory Y1A 3T2 Canada
<b>Operating Office</b>	1604 Puntas de Santiago C.P. 11500 Montevideo Uruguay
<b>Nominated Adviser and Broker</b>	Durlacher Limited Moorgate Hall 155 Moorgate London, EC2M 6XB UK
<b>Competent Person</b>	RSG Global Pty Ltd 1162 Hay Street West Perth, WA 6005 Australia
<b>Reporting Accountant</b>	Deloitte & Touche LLP 201 Deansgate Manchester M60 2AT UK
<b>Auditors</b>	BDO Dunwoody LLP 1900, 801-6 <sup>th</sup> Avenue S.W. Calgary Alberta T2P 3W2 Canada
<b>Solicitors to the Company as to English law</b>	Cobbetts Ship Canal House King Street Manchester M2 4WB UK
<b>Solicitors to the Company as to Uruguayan law</b>	Guyer & Regules Plaza Independencia 811 Montevideo Uruguay

**Registrars in UK**

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Canada

**PART I**  
**INFORMATION ON THE GROUP**

**Introduction**

Uruguay Minerals is a gold producer and exploration company focused on identifying and developing mineral opportunities in Uruguay.

Uruguay Minerals is a fully integrated mining company, possessing the skills necessary to explore and develop its discoveries. The Company operates the only producing gold mine in the country (San Gregorio), and is also the leading mineral exploration company in Uruguay having assembled an exploration portfolio based on gold, base metals (copper, nickel, lead, zinc) and diamond prospects. In the first half of 2003, the Company discovered the Arenal deposit, currently the largest known gold resource in Uruguay.

All the executive officers of the Company are resident in Uruguay.

**History**

Uruguay Minerals has been exploring in Uruguay since 1996, and has developed an extensive portfolio of mineral exploration projects.

The Company was listed on the Canadian Dealing (over-the-counter) Network from February 1998 until March 2000 and became listed on the Canadian Venture Exchange (CDNX) in March 2000. The CDNX became the TSX Venture Exchange in June 2002 where the Company's Common Shares trade under the symbol UME.

**Strategy**

The Directors believe that Uruguay has great, and so far largely unexplored, potential for the discovery and economic production of a variety of mineral resources including gold, silver, nickel, copper, lead, zinc and diamonds.

The Board's long term strategy is to develop a database of Uruguayan geological information and use it to acquire the most prospective exploration properties in Uruguay, with the ultimate aim of progressing these opportunities to development or sale. The first product of this strategy is the discovery of the Arenal resource, which preceded the acquisition of the San Gregorio mine and gold treatment plant during 2003. The cash flow received from the San Gregorio plant will be used to finance the exploration programme.

It is the Board's strategy to concentrate the Company's activities in Uruguay. Exploration and development programmes will be results driven and will continue to focus on those projects which the Directors believe have the greatest opportunity for delivering further significant value to shareholders. As exploration projects develop, the Company will consider bringing in appropriate partners to take them through to production.

Figure 1  
South America



Uruguay is situated on the east coast of southern South America, bordered by Brazil and Argentina. The government has been a constitutional democracy since 1985. The population is approximately 3.4 million, half of which lives in Montevideo.

The Uruguayan economy is predominantly agriculture and services-based, and has been an open economy for the last 25 years. There are currently no restrictions on capital inflow and outflow or on foreign ownership of equity in Uruguay, which is also a member of Mercosur, the free trade zone encompassing Uruguay, Argentina, Brazil and Paraguay.

Geologically, Uruguay sits on the southern edge of the Brazilian shield, and approximately 50 percent of the country is occupied by rocks which are potentially prospective for a variety of mineral resources including gold, silver, nickel, copper, lead, zinc and diamonds. These rocks are of Archean and Lower Proterozoic age and similar-age rocks host significant metallic mineral deposits on all continents.

### Summary of Uruguayan Mining Laws

The mining code that governs the operation of mining and exploration activities in Uruguay was enacted in 1982. Mining activities are controlled by the National Directorate of Mining and Geology.

All minerals vest in the state, to which a royalty is payable on extraction. The landowner is compensated through this royalty, which is collected by the state and forwarded directly to the landowner. The State receives a royalty comprising 2% of net profit for the first 5 years, rising to 3% thereafter, and the landowner receives a royalty of 3% of net profit for the first 5 years, rising to 5% thereafter.

There are three title forms:

- (i) Prospecting Permit—grants the holder 2 years occupation, with the right to a 1 year extension of 50% of the area;
- (ii) Exploration Permit—grants the holder 2 years occupation, with the right to a 1 year extension of 50% of the area; and
- (iii) Exploitation License—usually granted for consecutive 15-year periods provided there are demonstrated reserves.

An Exploitation Licence requires full environmental approval, which is granted by the National Directorate of Environment and the National Directorate of Water. In 1997 San Gregorio was awarded first place for Latin America in the 27<sup>th</sup> World Mining Congress' ecology and environmental contest.

## Business Activities

### Summary

The principal business activity of the Company is the operation and development of Minas de Corrales Gold Project ("MCGP"), which is situated in the north of Uruguay, approximately 450 kilometres from Montevideo by a sealed highway.

**Figure 2**  
**Uruguay: Minas de Corrales**



The MCGP comprises the operating San Gregorio gold mine and processing plant, the recently developed Arenal deposit and other gold deposits.

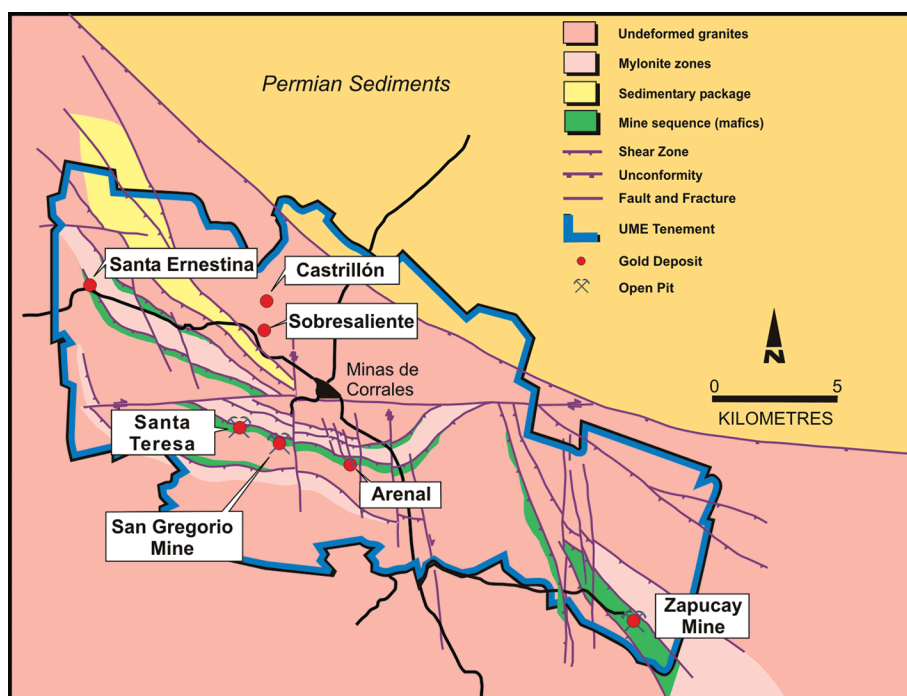
Apart from the MCGP, the Company has a number of other exploration initiatives underway for gold, copper, nickel and diamonds. These represent significant additional opportunities for organic growth in the event of exploration success.

Additionally, the Company has compiled an electronic database of geological information drawn from a wide variety of sources.

### *Minas de Corrales Gold Project*

The MCGP is located near the small town of Minas de Corrales in the Department of Rivera, approximately 450 kilometres north of Montevideo. This historic gold field was exploited principally by French and British companies in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries. The field lay dormant until 1996, when the largest historic mine in the district, San Gregorio, was re-developed as an open pit by the Canadian company Rea Gold.

**Figure 3**  
**Minas de Corrales Project: Regional Geology**



The San Gregorio deposit (including the Santa Teresa mineralisation), which has now produced over 500,000 ounces, was the largest known gold resource in Uruguay prior to the discovery by Uruguay Minerals of the Arenal deposit in 2003. This discovery provided the motive for Uruguay Minerals' acquisition of the San Gregorio facilities in October 2003. The San Gregorio mill, which is the only processing facility on the MCGP, has given Uruguay Minerals control of all the development opportunities in the zone. Gold production for the eleven months since acquisition (to the end of August 2004) was 50,621 ounces. During the first quarter of 2004 the mill throughput averaged approximately 100,000 tonnes per month. On 29 September 2004, the final environmental approval was granted in respect of the Arenal deposit, which is now in production.

The Company now controls over 20,000 hectares in the MCGP area, and a further 40,000 hectares on the Isla Cristalina where it is continuing to explore.

Geologically, the area is characterised by widespread gold mineralisation hosted in a package of sheared mafic and granitic rocks contained within a regional-scale, low-angle, thrust system. Three different gold hosting mechanisms have been identified to-date, each reflecting different geological settings. These are:

- (1) Auriferous pyrite hosted in sheared mafic rocks contained within the main shear package. The largest deposits discovered in the MCGP so far belong to this category, including San Gregorio, Santa Teresa and Arenal. This type of mineralisation is characterised by chlorite/epidote/carbonate alteration, with associated silicification. Quartz veining is generally minor. Mineralisation control is structural within a brittle-ductile deformation regime.
- (2) Auriferous pyrite +/- free gold hosted in quartz-stock-working in granitic rocks that have been subjected to brittle deformation. Characteristic alteration is epidote/silica/carbonate with minor chlorite. Quartz veining is prominent. Santa Ernestina and Sobre Saliente are the best known deposits of this type discovered to date in the MCGP.
- (3) Free gold +/- auriferous pyrite hosted in quartz veins. This type of mineralisation is represented by the majority of historic mines in the district, but represents only a small percentage of gold produced from the historic mines. Deposits are frequently small and depth limited, but of a higher grade than is normal for the area. The best known deposits of this type in the MCGP are Zapucay and Castrillón.

Additional information on the MCGP is covered in the Competent Person's Report in Part II of this document.

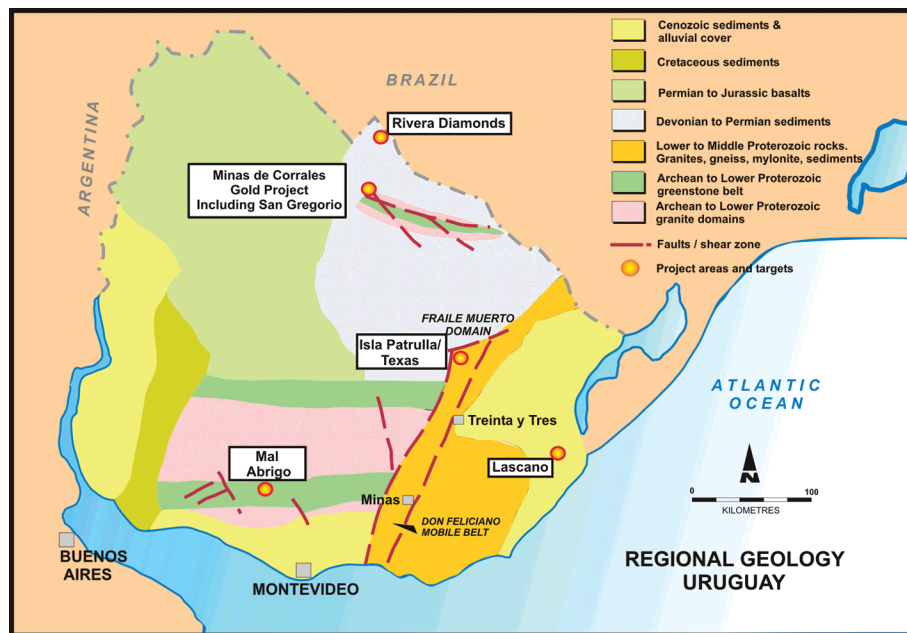
### Other Current Mineral Exploration Projects

The Company has an ongoing exploration programme within Uruguay, outside the MCGP. The prioritisation of these exploration projects varies from time to time depending on results. Resources and projects are routinely discarded or introduced in accordance with these priorities.

The Company is presently working on the following projects:

**Mirta:** Early drilling programmes have encountered high grade gold mineralisation in a complex, shear hosted setting within an interpreted Achaean greenstone setting. The Company is currently deciding whether to seek a joint venture partner before taking the project further.

**Figure 4**  
**Other exploration projects**



**Chamizo:** A new programme has commenced with the objective of gaining a better understanding of the structural setting, so that future drill targets can be defined. Earlier drilling showed that this project has the potential to host significant volumes of high grade gold ore. The geological setting appears to be a mineralised volcano-sedimentary unit that has been structurally deformed and metamorphosed and the gold re-deposited in conjunction with arsenopyrite.

**Mal Abrigo:** Located approximately 100 kilometres north-west of Montevideo, this project comprises a large gabbro/norite complex, where disseminated nickel/copper mineralisation has been found in outcrops at several localities. Ground surveys comprising soil geochemistry, Max-Min electromagnetics and magnetics surveys were undertaken, testing the contact margins of the layered complex and a magnetic layer with disseminated sulphides detected in outcrop. A total of 430 metres of diamond drilling in 3 holes was completed over a coincident HLEM and geochemical anomaly within the complex. A number of zones of disseminated sulphides from 4 to 20 metres in thickness were intersected in these holes. The sulphides comprise pyrrhotite with ex-solution of pentlandite and minor chalcopyrite. Ten reverse circulation drill holes totalling 500 metres were drilled to test co-incident Ni/Cu geochemical anomalies along the contact zone of the complex. Disseminated sulphide zones were detected, with the principal sulphide being pyrite. Minor pyrrhotite and chalcopyrite were also present. Further work is planned.

**Yatay:** Located approximately 340 kilometres north-east of Montevideo, massive sulphides (mainly pyrrhotite with minor pentlandite) were discovered outcropping in a shear zone within sedimentary rocks adjacent to an assemblage of ultramafic rock units. The area was located by follow-up prospecting on a geochemical stream anomaly disclosed in the Company's geochemical database. Because of very poor outcrop in the area a series of five reverse circulation drill holes for 480 metres and one diamond hole for 137.4 metres were drilled in order to obtain geological information. The targets were anomalous

nickel-in-soil geochemical data together with limited ground magnetic data. A number of massive sulphide layers were intersected in the drilling together with abundant disseminated sulphide. Both pyrrhotite and pyrite were present, however nickel values were generally low with the best intersection being of 6m @ 0.15% Ni. Follow up work will include geophysical surveys to define targets for further drilling, and further mapping to try to trace the intersection of the shear with the ultramafic rocks.

**Rivera Diamonds:** The project is located in the Department of Rivera in the north of Uruguay, approximately 500 kilometres from Montevideo. Previous work in this area has located macro and micro diamonds and a suite of indicator minerals. During the past year, an air photo structural synthesis covering an area of almost 100,000 hectares was completed. From this work, a number of structural lineaments were defined together with many circular features, which will be the subject of ground follow up investigation. Stream sediment sampling is in progress in drainage catchments where previous surveys had detected indicator mineral assemblages or micro diamonds. The samples comprise 100 kilograms of stream sediment collected from suitable trap sites, which is then concentrated to a 10 kilogram sample for analysis for diamonds and indicator minerals.

**Isla Patrulla/Texas:** The survey area includes a belt of favourable lithologies over an extensive package of copper and gold anomalous rocks more than 70 kilometres along strike by up to 20 kilometres wide, within the Dom Feliciano mobile belt. Work completed comprised regional mapping and rock chip follow-up sampling of regional stream sediment anomalies. This programme resulted in the definition of 13 areas targeted for detailed field mapping and further geochemical and geophysical surveys. Work has been concentrated on the “La Calera” prospect, where gridding and soil sampling outlined a 1,200m × 50m copper/gold anomaly, coincident with a strong aeromagnetic anomaly. Two stratigraphic diamond holes were drilled totalling 258 metres. Chalcopyrite and gold bearing quartz veinlets and breccia zones were observed cross-cutting a pyritic, banded siltstone sequence. These results are interpreted to be related to a dilation zone within a major regional structural lineament and are considered encouraging. Further geochemical and geophysical surveys will be undertaken in the coming year in order to define mineralisation drill targets. Work has continued on the Espinosa project, which is located 2 kilometres north-east of the township of Isla Patrulla. Broad spaced soil sampling has defined a copper and gold anomaly over an area 200m wide by 1,000m in length with values up to 800ppb. Multi-element analyses of rock chips have returned anomalous values for molybdenum, which, in the geological context, is suggestive of skarn-style mineralisation. The host rocks are carbonate rocks with granitic intrusives. The next phase of exploration will comprise a ground geophysical survey to define drill targets.

**Lascano:** Located in north east Uruguay this project area covers a very large gravity anomaly with a strong magnetic signature. Further airborne geophysical surveys will be required to better define appropriate drill targets. Initial discussions have been held with contractors with suitable equipment to undertake the survey which is expected to be flown early in 2005.

In addition to these currently active projects, the Company has a number of other base metals and gold projects at early stages of exploration.

#### *Geological database*

The database includes significant amounts of geochemical and geophysical data gathered by both public and private sector explorers in Uruguay over more than two decades. It includes tens of thousands of samples (comprising over one million assays) and covers all the prospective areas of Uruguay. By developing the database in electronic form, the Company now has the ability to rapidly access and interrogate geological information by geographical region or commodity.

The Directors believe that it would take 3–4 years and significant resource for a competitor to build an equivalent database.

#### **Technical Review**

An Independent Competent Person’s Report on the Company’s MCGP mining operations, projects and mineral assets has been prepared by RSG and is set out in Part II of this document. This report provides an independent assessment of the Company’s MCGP mining operations, projects and mineral assets and summarises the results obtained from each.

## **Directors and Employees**

### *Directors*

#### ***Anthony (Tony) Patrick Shearer, aged 56, Non-executive Chairman, appointed February 2002***

Tony is Group Finance Director, Chief Operating Officer, and Chief Executive designate, of Singer & Friedlander Group plc. Previous positions have included Finance Director and Chief Operating Officer of M&G Group, and Deputy Chief Executive of Old Mutual International. Tony is a Chartered Accountant. He is Chairman of the Audit, Corporate Governance and Remuneration Committees.

#### ***Chris Clark, aged 60, President and Chief Executive, appointed 1996***

Chris, co-founder of Uruguay Minerals, has been President since its foundation in 1996. He is a mining industry professional with over 25 years experience in the international mining industry, including fifteen years experience with Rio Tinto group in Australia, New Guinea and Europe, principally in both technical and corporate management aspects of the copper, iron ore and gold industries. He was Operations Director of Ramsgate Resources Ltd., a listed Australian medium scale gold producer with exploration activities in Papua New Guinea and Argentina. Chris' previous directorships include a number of public and private companies including Uruguay Gold NL, Ramsgate Resources NL, Mt Monger Gold Project Pty Ltd., Hamersley Iron (Japan) Pty Ltd., Hamersley Iron (Europe) Pty Ltd., Hamersley Exploration Pty Ltd., and Pilbara Harbour Services Ltd.

#### ***Mike Schwabe, aged 61, Exploration Director, appointed 1996***

Mike, co-founder of Uruguay Minerals, is a professional exploration geologist with a background in gold, nickel, base metals and uranium. Mike has extensive experience in exploration and mine development throughout the United States, Australia, Canada and South America. His previous executive positions include Managing Director of Anglo Australian Resources Ltd., Vice president Exploration of American Resource Corp., and Vice President of Exploration for Bond Gold Corp.

#### ***John Morris, aged 60, Non-executive Director, appointed May 2002***

John has over 33 years experience in exploration, mining and the management of public companies. He has held various directorships with Australian public companies, including the Forsyth group of companies, which he grew to be the seventh largest gold producer in Australia, and Ramsgate Resources NL, which developed the Mount Monger Gold Project. He is an Executive Director of Chaco Resources plc, previously known as Gold Mines of Sardinia Ltd. John sits on the Audit, Corporate Governance and Remuneration Committees.

#### ***Professor Roger Morton, aged 68, Non-executive Director, appointed 1998***

Roger was professor of Economic Geology from 1967 until 1995 at the University of Alberta where he is now Professor Emeritus in Earth and Atmospheric Sciences. He acts as a private consultant to a number of mining companies and also currently serves on the boards of Polar Star Diamonds Ltd., Diamori Ltd., Musko Minerals Corp., Brazauro Resources Corp., Brazilian Diamonds Ltd., Sola Resource Corp., Leeward Capital Corp. and True North Gems Ltd.. Roger sits on the Audit, Corporate Governance and Remuneration Committees.

### *Other Senior Management and Secretary*

#### ***David Fowler, aged 38, General Manager Commercial, appointed March 2004***

David is a Chartered Accountant with 10 years experience in resources. His previous experience includes senior financial positions for Western Metals Ltd. and Henry Walker Eltin Ltd. in Australia and Chile. David is a member of the Securities Institute of Australia.

#### ***John Sadek aged 41, General Manager Operations, appointed October 2004***

John has worked in the mining industry for over 18 years, during which time he has held positions with WMC, MIM, Ernest Henry Mining Pty Ltd. (all in Australia), Minera Alumbrera Argentina and Minera Yanacocha SRL (Peru).

*Sara-Lane Sirey, aged 36, Corporate Secretary and General Counsel, appointed 1998*

Sara-Lane provides advice on Canadian corporate law, securities, contracts and strategic alliances. Sara-Lane graduated LLB from the University of Saskatchewan in 1992. Until 2001 she was a partner of Armstrong Perkins Hudson LLP in Calgary, Alberta, specializing in corporate and securities law. Sara-Lane is an officer of a number of public companies operating in Canada, U.K. and South America.

*Employees*

Uruguay Minerals has in excess of 230 direct employees all of whom, including the Executive Directors, are based in Uruguay. Most are nationals of the region. Employees are involved in the following activities:

General management . . . . .	12
Mining and plant operation at the San Gregorio plant . . . . .	217
Exploration activities . . . . .	<u>7</u>
Total . . . . .	<u><u>236</u></u>

**Current Trading, Future Prospects and Financial Information**

The Directors believe that the Company is well placed to enhance the value of the Company’s metal and mineral exploration assets. Cash flow from the MCGP and the local presence of experienced exploration management will help enable the focused exploration programme to be implemented in a timely and effective manner.

It is the Group’s policy not to enter into future contracts in respect of the sale of its gold production, unless specifically required to do so. Under the terms of a banking facility, the Group was required to enter into futures contracts in respect of a maximum of 50,000 ounces of gold, such contracts expiring no later than June 2006.

Further financial information on the Group can be found in Part IV of this document.

**Reasons for Admission**

The admission to AIM forms part of the long term growth strategy to access UK and European institutional investors and heighten awareness of the Company in international markets.

**Dividend Policy**

The Company has not paid any dividends. The Company will develop a dividend policy, which will be reviewed annually by the Board, as and when the financial position is suitable.

**Taxation**

The attention of prospective investors is drawn to the taxation section in paragraph 13 of Part V of this document.

**Stock Option Plan and Warrants**

Pursuant to the Stock Option Plan, the Board may allocate non-transferable options to purchase Common Shares of the Company to directors, officers, employees and consultants of the Company and its subsidiaries. Further details of the Stock Option Plan are set out in paragraph 4 of Part V of this document. In addition to the Stock Option Plan, the Company has issued certain warrants, details of which are set out in paragraph 5 of Part V of this document.

**Dealing Arrangements and Canadian Take-over Bid Rules**

The Common Shares are listed on the TSXV and it is the Directors’ intention to maintain this listing for the foreseeable future.

Application has been made to the London Stock Exchange for all the existing Common Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Common Shares will commence on 15 December 2004.

Uruguay Minerals is incorporated in Canada and is managed and controlled outside the UK. Although the Common Shares will trade on AIM, the Company will not be subject to the Code, however, it is subject to provisions regulating take-overs under applicable Canadian corporate and securities laws. Please see paragraph 14 of Part V of this document for more information on Canadian Take-over Bid Rules.

### **Settlement and CREST**

Settlement on the Canadian share register will continue to be conducted through the Company's registrar and transfer agent.

The Common Shares will be held in CREST in the form of CDIs. CREST is the UK computerised paperless share transfer and settlement system, which allows shares and other securities, including depository interests, to be held in electronic rather than paper form. Under English Law, shares of non-UK companies cannot be held and transferred directly into the CREST system. CDIs facilitate the trading and settlement of shares of non-UK companies in CREST. CDIs are uncertificated "mirror image" securities constituted under English Law.

CREST is a voluntary system and shareholders who wish to retain share certificates will be able to do so.

### **Directors' Interests**

The Directors' aggregate interests in the issued Common Shares following Admission will amount to 3,570,332 Common Shares (representing 8.25% of the issued Common Share capital). In addition some of the Directors hold Options and warrants. For further information on the Directors' interests, please see paragraph 7 of Part V of this document.

None of the Directors or their related parties is selling any of the Common Shares currently held by them in connection with the Admission.

The Directors have each entered into orderly market arrangements for a period of 12 months following Admission with Durlacher in respect of their shareholdings.

### **Corporate Governance**

The Directors intend to comply with the Combined Code on Corporate Governance in so far as they believe it is appropriate to a company of the size and stage of development of Uruguay Minerals.

The Board includes three non-executive Directors: Tony Shearer (non-executive Chairman), John Morris and Professor Roger Morton. In addition, the roles of Chairman and Chief Executive have been separated.

The Company has established properly constituted Audit, Corporate Governance and Remuneration committees of the Board with formally delegated duties and responsibilities.

The Audit Committee comprises the non-executive Directors, and is chaired by Tony Shearer. It receives and reviews reports from management and the Group's auditors relating to the interim and annual accounts, and the accounting and internal control systems in use throughout the Group. The Audit Committee has unrestricted access to the Group's auditors.

The Remuneration Committee comprises the Non-Executive Directors, and is chaired by Tony Shearer. It makes recommendations to the Board on matters relating to the remuneration and terms of employment of the Executive Directors of the Company, and on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time.

The remuneration and terms and conditions of the Non-Executive Directors are set by the Board.

The Corporate Governance Committee comprises the Non-Executive Directors, and is chaired by Tony Shearer. It is responsible for the Company's approach to, and reporting in respect of, corporate governance, for ensuring that all members of the Board understand their duties and responsibilities, and for the mandate given to the President.

**PART II**  
**COMPETENT PERSON'S REPORT**



9 December 2004

The Directors  
Uruguay Mineral Exploration Inc  
Puntas de Santiago 1604  
CP 11500 Montevideo  
Uruguay

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The Directors  
Durlacher Limited  
Moorgate Hall  
155 Moorgate  
London EC2M 6XB

Dear Sirs,

RSG Global Pty Ltd (“RSG Global”) has been commissioned by Uruguay Mineral Exploration Inc (“UME”) and Durlacher Limited to provide a Competent Person’s Report for the Minas de Corrales gold project in Uruguay, in which UME has a 100% interest. This report is to be included in an admission document (the “Admission Document”) to be prepared in connection with the proposed admission of the entire issued share capital to trading on the Alternative Investment Market (“AIM”) of the London Stock Exchange (“Admission”).

RSG Global has not been requested to provide an Independent Valuation, nor have we been asked to comment on the Fairness or Reasonableness of any vendor or promoter considerations, and we have therefore not offered any opinion on these matters.

RSG Global has based its review of the Minas de Corrales Project on information provided by UME, along with technical reports by government agencies and previous tenement holders, and other relevant published and unpublished data. A site visit was undertaken to the project area by Colin Jones during September 2004. A final draft of the report was also provided to UME and Durlacher, along with a written request to identify any material errors or omissions prior to admission.

The Minas de Corrales Project, as reviewed, consists of a number of gold deposits and old open pits, as well as the Arenal deposit which UME has recently put into production. The deposits are included in a total tenement holding of approximately 40,000ha. The legal status associated with the tenure of the Minas de Corrales Project is summarised elsewhere within this Admission Document. These matters have not been independently verified by RSG Global.

The Competent Person’s Report has been prepared in accordance with the Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports (the

“Valmin Code”), which is binding upon Members of the Australasian Institute of Mining and Metallurgy (“AusIMM”), the Australian Institute of Geoscientists (“AIG”), and the rules and guidelines issued by such bodies as the London Stock Exchange, which pertain to Independent Expert Reports.

The Competent Person’s Report has been prepared on information available up to and including 1 November 2004. RSG Global has provided and not withdrawn written consent for the inclusion of the Competent Person’s Report in Part V of the Admission Document, and to the inclusion of statements made by RSG Global and to the references of its name in other sections of the Admission Document, in the form and context in which the report and those statements appear. RSG Global accepts responsibility for the Competent Person’s Report for the purposes of regulation 13(1)(d) of the Public Offers of Securities Regulations 1995.

RSG Global is an exploration, mining and resource consulting firm, which has been providing services and advice to the international mineral industry and financial institutions since 1987. This report has been compiled by Colin Jones, who is a professional geologist with 23 years experience in the exploration and evaluation of mineral properties worldwide. Mr Jones is Manager Audits for and a Partner of RSG Global, and a Member of the AusIMM. Mr Jones has the relevant qualifications, experience, competence and independence to be considered an “Expert” under the definitions provided in the Valmin Code and “Competent Person” under the JORC Code.

Neither RSG Global, nor the authors of this report, have or have previously had, any material interest in UME or the mineral properties in which UME has an interest. Our relationship with UME is solely one of professional association between client and independent consultant. This report is prepared in return for professional fees based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this report.

Yours faithfully  
RSG Global Pty Ltd

A handwritten signature in black ink, appearing to read 'Colin Jones', with a period at the end. The signature is written in a cursive, fluid style.

---

Colin Jones  
Manager Audits

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## **EXECUTIVE SUMMARY**

### **Introduction**

RSG Global Pty Ltd (RSG Global) was commissioned by Uruguay Mineral Exploration Inc (UME) to complete an Independent Technical Review of the UME mining and exploration properties in Uruguay and to present the results of the review as a Competent Person's Report (CPR). The CPR is required as part of the admission process to the Alternative Investment Market (AIM) in London.

The main UME asset in Uruguay is the Minas de Corrales Project, a gold project comprising an operating process plant treating ore from a number of open pit mining operations. In addition, a new deposit (Arenal) has been discovered recently by UME, and this deposit is expected to provide the bulk of the mill feed for the foreseeable future.

Other projects controlled by UME in Uruguay comprise relatively early stage exploration projects for a number of commodities, including gold, base metals, nickel, platinum group metals (PGM) and diamonds. UME controls over 500,000ha of tenements in Uruguay, including the Minas de Corrales Project.

Due to the significance of the Minas de Corrales Project compared to the other UME projects, this report concentrates on the Minas de Corrales Project and the Arenal deposit in particular. The Minas de Corrales Project will provide significant cash flow for UME, and the other exploration projects are at present not material relative to this.

All monetary figures are in United States Dollars (US\$) unless otherwise stated.

### **Minas de Corrales Project**

The Minas de Corrales Project is situated in the Department of Rivera, approximately 450km north of the capital city, Montevideo, and approximately 100km south of the international border with Brazil.

In 2003, UME acquired the mineral assets of Crystallex in Uruguay, including the San Gregorio open pit mines and the Minproc ore treatment plant at Minas de Corrales. Since that time, UME has undertaken extensive drilling activities and has delineated multiple sources of mill feed from the San Gregorio, Ombú, Zapucay, Castrillón and Sobre Saliente deposits, as well as the new deposit at Arenal.

UME has recently commenced mining activities at the Arenal open pit and ceased mining from the Ombú open pit. Mining from the Zapucay open pit is continuing. UME has also previously mined ore from the main San Gregorio open pit and extensions of the mineralisation along strike to the east and west. Low grade and medium grade stockpiles also provide an important source of mill feed. It is expected that Arenal will provide the vast majority of future ore.

UME controls approximately 40,000ha of mining and exploration tenements in the Minas de Corrales area, mainly along the San Gregorio Shear Zone (SGSZ), which is interpreted to be the main regional control on gold mineralisation.

Environmental approval applications were lodged for mining activities at Arenal, Sobre Saliente and Castrillón, as well as for the Phase 5 lift on the current tailings storage facility (TSF). These approvals were granted on 1 November 2004, and mining has commenced at Arenal. UME intends to exploit the Arenal deposit by way of a Phase I pit, which will preclude the necessity of diverting the Arroyo Corrales and thus facilitate permitting and approval.

The Minas de Corrales Project is located within an inlier of Proterozoic greenstone/granite terrane known as the Isla Cristalina. Gold mineralisation within the Isla Cristalina is spatially associated with the SGSZ, a regional east-west and northwest trending ductile shear zone that can be traced for approximately 110km along strike. The SGSZ is characterised by extensive ductile deformation and well developed mylonites. The main alteration assemblage associated with gold mineralisation within the SGSZ comprises chlorite-(epidote)-carbonate-sericite-silica-pyrite.

Gold mineralisation at Minas de Corrales is exclusively associated with epigenetic mesothermal style mineralisation, consistent with the majority of Archaean and Proterozoic greenstone terranes worldwide, including the Birimian rocks of West Africa, the Yilgarn Block in Western Australia, the Lake Victoria region in Tanzania and the Abitibi Belt in Canada. This style of mineralisation is generally associated with regionally metamorphosed terrains that have experienced considerable deformation. As such, the deposits are strongly structurally controlled. The most common style of mineralisation in this setting is fracture and vein hosted gold mineralisation in zones of brittle fracture.

Gold mineralisation at Minas de Corrales has occurred as infill of brittle fractures within favourable host rocks such as zones of silicification and mafic units. Brittle fracture has occurred within these zones in response to local extensional tectonics created by the intersection of northwest and east-northeast trending faults with the ductile SGSZ. Intense brittle fracture, silicification and quartz veining are apparent in higher grade zones. The gold deposits associated with the SGSZ are generally hosted within mafic units at the contact with granites. Pyrite is the dominant sulphide, and gold grade is directly proportional to the pyrite content. The gold at all deposits is fine, and visible gold is rare. Other potentially deleterious elements are in low concentrations.

At Arenal, gold mineralisation is associated with a fractured zone of silicification and hydrothermal alteration generally located near the contact between a relatively unaltered diorite in the hangingwall with deformed mafic and felsic igneous rocks in the footwall. The mineralised zone is consistent with the dip of the SGSZ, at approximately 30° to the south. Mineralisation at Arenal has now been traced for approximately 350m along strike to the east of the Arroyo Corrales and approximately 200m down dip. Mineralisation appears to decrease down dip and along strike to the east, although the altered zone persists and can be very wide in places.

In the central area at Arenal, the mineralised zone is geologically continuous, and gold grades also show good continuity. This is the ore that will be mined during the Phase I open pit development. Mineralised thicknesses in this part of the deposit average approximately 25m. Higher grade gold mineralisation has a south-southeast plunge at Arenal, which is consistent with the intersection of northwest trending faults with the SGSZ.

Mineral Resources as reported publicly by UME have been completed by UME personnel, by Mine Development Associates (MDA) in Reno, Nevada or by Widenbar and Associates (Widenbar) in Perth, Australia. The resources were reported by UME in a Consolidated Resource Statement in March 2004, and were independently reviewed for compliance to the NI43-101 reporting requirements by William Lindqvist in May 2004.

The resources for the Minas de Corrales Project as reported by UME in March 2004 are summarised in the table below.

**Minas de Corrales Project  
Resources as Reported by UME, March 2004**

<u>Deposit</u>	<u>Tonnes</u>	<u>Grade (g/t Au)</u>	<u>Contained Ounces</u>
<b>Measured Resources</b>			
Arenal . . . . .	1,522,000	2.96	144,900
San Gregorio . . . . .	925,000	2.30	70,600
Zapucay . . . . .	180,000	1.73	10,000
Castrillón . . . . .	82,000	2.19	5,800
Sobre Saliente . . . . .	283,000	1.48	13,400
Stockpiles . . . . .	648,000	0.93	19,440
<b>Total Measured Resources . . . . .</b>	<b><u>3,640,000</u></b>	<b><u>2.24</u></b>	<b><u>264,140</u></b>
<b>Inferred Resources</b>			
Arenal . . . . .	7,556,000	2.26	550,100
San Gregorio . . . . .	1,688,000	1.60	92,100
Rieles . . . . .	992,000	1.64	49,000
Ombú . . . . .	1,152,000	1.26	42,700
Santa Teresa . . . . .	1,681,000	1.23	63,500
Zapucay . . . . .	2,509,000	1.35	110,000
Sobre Saliente . . . . .	6,517,000	0.98	206,600

The Inferred Resources for Arenal have been estimated on site by UME personnel using a sectional approach, and arithmetic averages for grade and ore zone thickness have been applied to each sectional block, resulting in blocks of 25m down dip by 30m along strike, extrapolated down dip to the deepest drill intersection on each section. The mineralised zone was constrained by using a 0.5g/t Au lower cutoff grade. No top cuts were applied to the data. This resulted in Inferred Resources of some 5.1Mt at a grade of approximately 2.4g/t Au for approximately 400,000 contained ounces of gold. The published Inferred

Resource is larger than this, and is a result of extrapolating the mineralised zone down dip to 300m (the deepest intercept).

The Arenal resource estimate by Widenbar was completed in December 2003, based on drilling data from 55 RC holes and 7 DC holes. The mineralised zone was digitised and modelled using a nominal 0.5g/t Au lower cutoff grade. A block model was created using parent block size of 5m by 5m by 5m, with sub-celling down to 1m to honour the edges of the mineralised zone interpretation. An assumed bulk density of 2.7t/m<sup>3</sup> and a top cut of 20g/t Au were applied. Grade interpolation was by inverse distance weighting to the power of 2. Widenbar reported the results at a number of lower cutoff grades for uncut and cut estimates. At a lower cutoff grade of 0.5g/t Au, the resources were reported as 2.5Mt at 2.81g/t Au (cut) and 2.97g/t Au (uncut). Reporting of grade and tonnes on a bench by bench basis clearly shows a dramatic reduction in grade with depth. The Widenbar resource was not classified according to any international resource reporting codes.

The Arenal Measured Resources as reported by UME in March 2004 appear to be those resources as estimated by Widenbar that fall within an optimised pit shell (Phase 1 pit). Based on the site visit and review carried out by RSG Global, the mineralised zone within the Phase 1 pit is continuous and robust and the tonnes and grade available within the Phase I pit as designed by UME should be extracted as planned without difficulty.

Pit optimisations have been undertaken by Widenbar in December 2003 for the Phase I Arenal pit, which includes approximately 250m of strike of the central part of the Arenal mineralised zone. These pit optimisations form the basis for the Arenal Measured Resources (Phase I pit) as reported by UME, based on the Datamine block model developed by Widenbar. The pit optimisations were carried out using Whittle software. The optimum pit (Pit 9) Whittle results at a gold price of \$400/oz are shown in the table below.

**Arenal Deposit  
Whittle Results at Gold Price of \$400/oz**

<b>Bench RL m</b>	<b>Total Tonnes t</b>	<b>Waste t</b>	<b>Ore Tonnes t</b>	<b>Au g/t</b>	<b>Strip Ratio</b>
135	5,260	5,260			
130	84,374	84,374			
125	236,880	227,172	9,708	2.47	23.4
120	423,649	375,734	47,916	2.56	7.8
115	712,216	634,314	77,902	2.53	8.1
110	720,177	631,366	88,812	2.57	7.1
105	676,016	580,532	95,483	2.66	6.1
100	558,492	462,260	96,232	2.71	4.8
95	519,719	408,777	110,943	2.61	3.7
90	479,955	361,628	118,328	2.62	3.1
85	440,532	319,524	121,009	2.72	2.6
80	336,424	213,588	122,836	2.73	1.7
75	303,885	175,186	128,700	2.89	1.4
70	267,408	143,769	123,639	3.41	1.2
65	236,815	121,854	114,961	3.68	1.1
60	161,979	65,880	96,099	3.80	0.7
55	130,681	49,786	80,895	3.61	0.6
50	96,450	42,386	54,065	3.26	0.8
45	65,854	30,938	34,915	2.83	0.9
<b>Total</b>	<b>6,456,767</b>	<b>4,934,326</b>	<b>1,522,440</b>	<b>2.96</b>	<b>3.2</b>

RSG considers that the pit optimisations have been carried out to acceptable industry standards and the input parameters are generally conservative. Given the lack of definitive feasibility work, it is appropriate that UME has not reported the results of the pit optimisations as Mineral Reserves.

UME has been mining ore from a number of sources, primarily in order to provide mill feed until the Arenal deposit could be put into production. Gold production was approximately 4,000oz per month. Mining is by conventional drill and blast, load and haul open pit methods using 5m or 10m benches. The

current mining fleet has reached the end of its productive life, and consequently maintenance costs are high and availability low. This situation is being rectified by the purchase of new Komatsu haul trucks and excavators.

The Phase I pit design for Arenal has been completed by MDA based on the pit optimisations. Ore will be available from surface. Mining will commence with the haul road starting in the footwall and extending into the hangingwall. Pit depth in the current mine plan (Phase 1) is a maximum of 90m. The pit will ultimately be extended to the east and at depth.

Production schedules have been derived from the results of the pit optimisations, however no detailed mining, stockpiling or blending schedules have been developed. This is not considered a material issue given that UME is not reporting Mineral Reserves.

The current UME mine plan assumes mining operations to provide mill feed from Arenal, at a milling rate of 100ktpm for gold production of approximately 110kozpa.

A few preliminary bottle roll tests on ore from Arenal have been completed, which show gold recoveries of between 92.3% and 95.8%. No variability testwork has been completed at Arenal to investigate changes in metallurgical response throughout the deposit. Given the good recoveries obtained from the other deposits along the SGSZ, this is not considered a material issue, and high recoveries from Arenal ore can be expected. No comminution testwork has been undertaken for Arenal. It is assumed that the Arenal ore will have milling characteristics similar to those of the other ores currently being processed. Given the similarities in rock type, alteration assemblages and mineralogy between each of the deposits in the Minas de Corrales area, this is a reasonable assumption.

The ore treatment plan is a conventional carbon in pulp (CIP) plant built by Minproc in 1996 with a nominal throughput of 1.0Mtpa. The plant comprises two stage crushing, followed by a SAG mill and a ball mill. A pebble crusher has also been installed to deal with oversize material produced by the SAG mill.

UME has been upgrading the plant in terms of equipment and operational procedures, and has increased gold recoveries from approximately 89% in September 2003 to approximately 95%, as well as increasing throughput from approximately 2,600tpd to almost 4,000tpd. Plant availability has also improved greatly, and production of oversize material has decreased from 55tph to 15tph. For future operations, the crusher is forecast to operate for 12 hours per day and have an availability of over 95%. A crushed ore stockpile of 5,000t (2 days production) will be maintained. Mill availability is assumed at 92%, and leach plant availability has been set at 100%.

Detailed hydrological and hydrogeological studies with regard to the Phase I open pit at Arenal have been undertaken, which have included the development of a number of dedicated drillholes for pumping testwork and flow rate determinations. In particular, surveys were undertaken to determine the flow rates and fluctuations in the flow rates in the Arroyo Corrales, which is subject to relatively frequent flooding. A flood protection bund will be constructed to protect the Arenal open pit. According to preliminary designs, this structure will be approximately 700m in length and approximately 12m in height.

Waste rock used for construction of the TSF, roads and the proposed flood diversion bund at Arenal does not contain significant amounts of sulphides and is not acid producing. Consequently, the issue of acid rock drainage (ARD) from these structures and from the waste dumps themselves is not considered significant.

Other environmental impacts are similar to those normally expected from similar operations. Routine periodic environmental monitoring at the site appears to be undertaken to high international standards. A monitoring pond and a number of monitoring bores are located downstream of the TSF.

## **1 INTRODUCTION**

### **1.1 Scope of Work**

RSG Global Pty Ltd (RSG Global) was commissioned by Uruguay Mineral Exploration Inc (UME) to complete an Independent Technical Review of the Minas de Corrales Project in Uruguay and to present the results of the review as a Competent Person's Report (CPR). The CPR is required as part of the admission process to the Alternative Investment Market (AIM) in London.

The Minas de Corrales Project is a gold project comprising an operating process plant treating ore from a number of open pit mining operations. In addition, a new deposit (Arenal) has been discovered recently by UME, and this deposit is expected to provide the bulk of the mill feed for the foreseeable future.

Other projects controlled by UME in Uruguay comprise relatively early stage exploration projects for a number of commodities, including gold, base metals, nickel, platinum group metals (PGM) and diamonds.

Due to the significance of the Minas de Corrales Project compared to the other UME projects, this report concentrates on the Minas de Corrales Project and the Arenal deposit in particular. The Minas de Corrales Project will provide significant cash flow for UME, and the other exploration projects are not at present material relative to this.

All monetary figures are in United States Dollars (US\$) unless otherwise stated.

### **1.2 Participants**

The primary author of this report is Mr. Colin Jones, who is a professional geologist with 23 years experience in the exploration and evaluation of mineral properties internationally. The author is a Partner and Manager (Audits) of RSG Global and a Member of the Australasian Institute of Mining and Metallurgy (AusIMM), and has the appropriate relevant qualifications, experience and independence to be considered an Expert as defined in the Australasian Valmin and JORC Codes and a Qualified Person as defined in Canadian National Instrument 43-101. As a Member of the AusIMM, the author is bound by the reporting requirements set out in the Valmin Code and the resource reporting requirements set out in the JORC Code.

Mr. Jones visited the Minas de Corrales Project between 2 September 2004 and 8 September 2004. During the site visit, an understanding was gained of the local infrastructure and conditions, a large amount of diamond drill core was inspected, numerous technical reports, plans and sections were reviewed and extensive discussions were held with UME technical and managerial personnel in Uruguay. The other exploration projects held by UME in Uruguay were not visited.

RSG Global is an integrated Australian (Perth) based consulting firm, which has been providing services and advice to the international mineral industry and financial institutions since 1987. RSG Global has maintained a fully operational office at Accra in Ghana since 1996, providing an operational base for consulting and contracting assignments throughout the West African region. An additional African office was established in Johannesburg, South Africa, in 1999 to support expanding activities within southern and eastern portions of the continent. In addition, the company operates an office in Lima, Peru that provides consulting and contracting services in the South American region.

Neither RSG Global, nor the authors of this report, have or have had previously any material interest in UME or related entities or interests. Our relationship with UME is solely one of professional association between client and independent consultant. This report is prepared in return for fees based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this report.

### **1.3 Principal Sources of Information**

In addition to the recent site visits, the author of this report has relied extensively on information provided by UME, extensive discussion with UME management, various internal exploration reports, geological maps and sections and external consultants' reports, as well as information already in the public domain. In addition, some digital data were made available, including drilling databases, survey data and previous resource models for each of the project areas.

RSG Global has made all reasonable enquiries to establish the completeness and authenticity of the information supplied and acquired, and a final draft of this report was provided to UME, along with a written request to identify any material errors or omissions, prior to lodgement.

## 1.4 Abbreviations

A full listing of abbreviations used in this report is provided in Table 1.

**Table 1**  
**List of Abbreviations**

<b>Abbreviation</b>	<b>Description</b>
AAL . . . . .	American Assays Limited
AP . . . . .	Assay Pairs
ARD . . . . .	Acid Rock Drainage
Au . . . . .	gold
AusIMM . . . . .	Australasian Institute of Mining and Metallurgy
CIP . . . . .	Carbon in Pulp
DC . . . . .	Diamond Core
EL . . . . .	Exploration Licence
HARD . . . . .	Half the Absolute Relative Difference
HRD . . . . .	Half Relative Difference
JORC . . . . .	Joint Ore Reserves Committee
MDA . . . . .	Mine Development Associates
PGM . . . . .	Platinum Group Metals
PL . . . . .	Prospecting Licence
RAB . . . . .	Rotary Air Blast
RC . . . . .	Reverse Circulation
ROM . . . . .	Run Of Mine
SGSZ . . . . .	San Gregorio Shear Zone
TSF . . . . .	Tailings Storage Facility
UME . . . . .	Uruguay Mineral Exploration Inc

## 1.5 Mining Title, Uruguay

There are 3 types of mining title available under the current Uruguay legislation. A Prospecting Licence (PL) has a term of 2 years with an option for a 12 month extension following a 50% relinquishment. An Exploration Licence (EL) also has a term of 2 years with an option for a 12 month extension following a 50% relinquishment. Trial mining is permitted under an Exploration Licence. An Exploitation Licence has a term of 15 years with an option to renew for a further 15 years.

## 2 MINAS DE CORRALES PROJECT

### 2.1 Project Location

The Minas de Corrales Project is situated in the Department of Rivera, approximately 450km north of the capital city, Montevideo, and approximately 100km south of the international border with Brazil (Figure 1). The project is easily accessed by paved road from Montevideo or by commercial air flights from Montevideo to Tacuarembó, some 70km from the project. The project is a few kilometres from the small township of Minas de Corrales on a well maintained gravel road.

Figure 1  
Project Location: Minas de Corrales



The project area comprises gently rolling grasslands divided by broad river valleys. The grasslands are extensively farmed, primarily for beef, but also for timber and various cereal crops. Average annual rainfall is approximately 1,500mm. Average temperatures range from 6°C in June to 32°C in January.

## 2.2 Tenement and Permitting Status

UME controls over 500,000ha of tenements in Uruguay, including the Minas de Corrales Project. UME controls approximately 40,000ha of mining and exploration tenements in the Minas de Corrales area, mainly along the San Gregorio Shear Zone (SGSZ), which is interpreted to be the main regional control on gold mineralisation.

The Arenal, Santa Teresa, Ombú, San Gregorio and Zapucay deposits are all contained within granted Exploitation Licences, valid for 15 years. The Sobre Saliente and Castrillón deposits are held under Exploration Licences, which permit trial mining.

UME has purchased the land affected by the current mining operations, as well as the land at Arenal. This has allowed unrestricted access for exploration and drilling activities.

UME intends to exploit the Arenal deposit by way of a Phase I pit, which will preclude the necessity of diverting the Arroyo Corrales and thus facilitate permitting and approval.

Environmental approval applications were lodged for mining activities at Arenal, Sobre Saliente and Castrillón, as well as for the Phase 5 lift on the current tailings storage facility (TSF). These approvals were granted on 1 November 2004, and mining has commenced at Arenal.

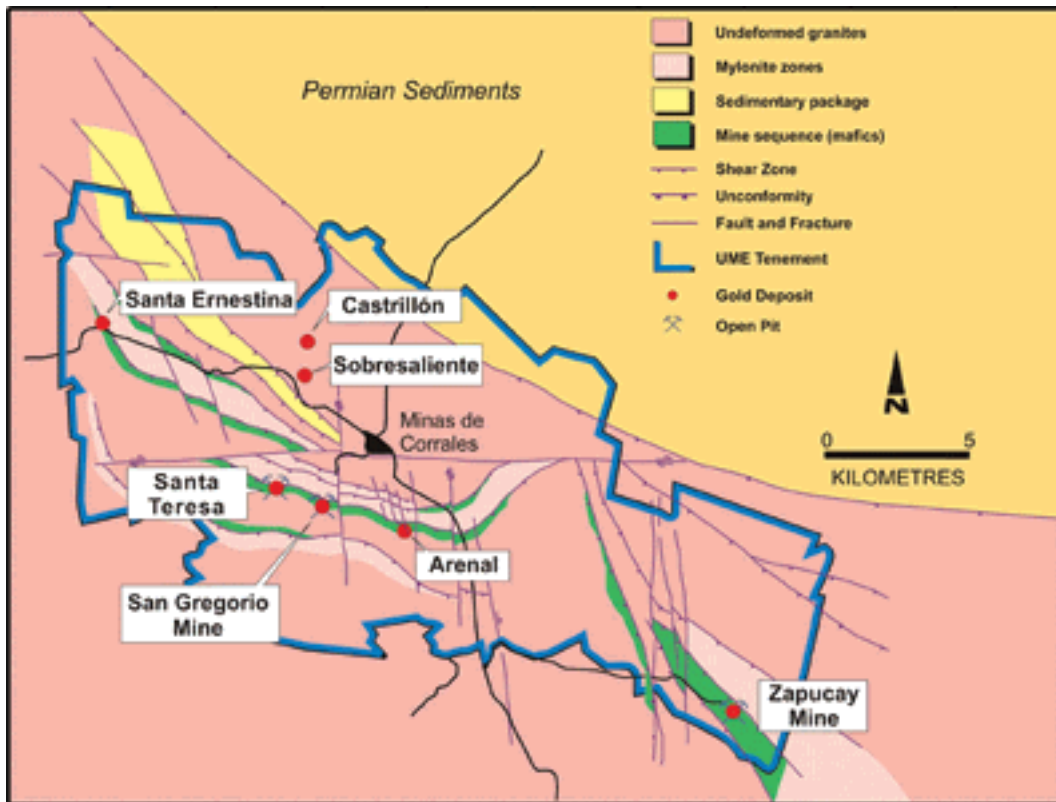
## 2.3 Geology and Mineralisation

### 2.3.1 Regional Setting

The Minas de Corrales Project is located within an inlier of Proterozoic greenstone/granite terrane known as the Isla Cristalina. Gold mineralisation within the Isla Cristalina is spatially associated with the SGSZ, a regional east-west and northwest trending ductile shear zone that can be traced for approximately 110km along strike. Most of the known gold mineralisation is located in the western portion of this structure. The

deposits associated with the Minas de Corrales Project occur at distinct flexures and changes of strike along the SGSZ from east-west to northwest (Figure 2).

**Figure 2**  
**Minas de Corrales Project: Regional Geology**



All rocks within the Isla Cristalina have been metamorphosed to greenschist facies, although the grade of metamorphism appears to increase to the east. The SGSZ is characterised by extensive ductile deformation and well developed mylonites.

The SGSZ forms the contact between predominantly granitic terrane to the north and a sequence of mafic and felsic volcanic and sedimentary units intruded by later granitic rocks to the south.

The SGSZ in the vicinity of the Santa Teresa, Ombú and San Gregorio open pits dips to the south at between 45° and 60°, and dips approximately 30° to the south at Arenal.

The Arenal deposit is located approximately 4km to the southeast of the San Gregorio deposit, indicating a southeast flexure or offset of the SGSZ between the two deposits. The mineralisation at Arenal was discovered by UME following conjecture that the northwest trending faults noted in the San Gregorio open pit exhibited dextral movement, and that mineralisation (and the SGSZ) could therefore be offset to the southeast.

The main alteration assemblage associated with gold mineralisation within the SGSZ comprises chlorite-(epidote)-carbonate-sericite-silica-pyrite. Potassium feldspar alteration is noted in many places, however this alteration appears to be semi-regional in extent and may not be directly associated with hydrothermal mineralising events.

Gold mineralisation at Minas de Corrales has occurred as infill of brittle fractures within favourable host rocks such as zones of silicification and mafic units. Brittle fracture has occurred within these zones in response to local extensional tectonics created by the intersection of northwest and east-northeast trending faults with the ductile SGSZ. Intense brittle fracture, silicification and quartz veining are apparent in higher grade zones. At least 3 phases of fracturing and veining can be recognised from drill core.

The gold deposits associated with the SGSZ are generally hosted within mafic units at the contact with the granites. Pyrite is the dominant sulphide, and gold grade is directly proportional to the pyrite content. The gold at all deposits is fine, and visible gold is rare. Other potentially deleterious elements are in low concentrations.

The northeast trend to the mineralisation is apparent within the granites to the north of the SGSZ, where the Castrillón and Sobre Saliente deposits are located. These deposits are approximately 7km north of the SGSZ.

### 2.3.2 Arenal

The Arenal deposit was discovered by extending previous soil sampling lines south into the central part of the Arenal deposit. The first trench at Arenal gave assay results of 52m at 1.2g/t Au. The first diamond core (DC) drillhole resulted in an intercept of 29m at 2.75g/t Au.

Gold mineralisation is associated with a fractured zone of silicification and hydrothermal alteration generally near the contact between a relatively unaltered diorite in the hangingwall with deformed mafic and felsic igneous rocks in the footwall. The mineralised zone is consistent with the dip of the SGSZ, at approximately 30° to the south.

Mineralisation at Arenal has now been traced for approximately 350m along strike to the east of the Arroyo Corrales and approximately 200m down dip. Mineralisation appears to decrease down dip and along strike to the east, although the altered zone persists and can be very wide in places.

In the central area at Arenal, the mineralised zone is geologically continuous, and gold grades also show good continuity. This is the ore that will be mined during the Phase I open pit development. Mineralised thicknesses in this part of the deposit average approximately 25m.

Mineralisation has been intersected on a single drill line only on the western side of the Arroyo Corrales, representing a gap of 1km between the mineralisation at San Gregorio East and the mineralisation at Arenal.

Higher grade gold mineralisation has a south-southeast plunge at Arenal, which is consistent with the intersection of northwest trending faults with the SGSZ.

### 2.3.3 San Gregorio

Most of the previous ore production was from the main San Gregorio open pit, where mineralisation associated with the SGSZ mylonites occurs within zones of intense silicification, brittle fracture and quartz veining, generally at the contact between felsic (hangingwall) and mafic (footwall) igneous rocks. Higher grade gold mineralisation has a west-southwest plunge at San Gregorio, which is consistent with the intersection of northeast trending, westerly dipping faults with the SGSZ.

A relatively high grade ore shoot has been defined at the base of the San Gregorio open pit. The shoot plunges to the west-southwest below the current base of the main San Gregorio open pit at its western end, below the San Gregorio West open pit. To date, this material has not been included in the UME mine plan.

### 2.3.4 Ombú

The Ombú mineralised zones extend along strike of the SGSZ for approximately 450m, commencing in the east approximately 350m west of the main San Gregorio open pit.

Higher grade gold mineralisation has a west-southwest plunge at Ombú, which is a reflection of the intersection of northeast trending faults with the SGSZ.

The style of alteration and mineralisation is essentially the same as for the San Gregorio deposit.

### 2.3.5 Santa Teresa

The Santa Teresa deposit is located to the west of San Gregorio along the strike of the SGSZ, and has been mined from 3 open pits. The style of alteration and mineralisation is essentially the same as for the San Gregorio deposit.

The Santa Teresa mineralisation is of relatively low grade, and although UME reports an Inferred Resource for this deposit, it is not included in the UME mine plan.

### 2.3.6 Zapucay

Zapucay and the nearby Argentinita deposit are located on a north-northwest trending portion of the SGSZ, some 35km by road from the San Gregorio process plant.

Mineralisation at Zapucay occurs within a folded segment of the SGSZ, associated with silicified mylonites and sub-horizontal quartz veins. Mineralisation has been interpreted into 4 structural blocks at Zapucay and 3 structural blocks at Argentinita, each block comprising approximately 100,000t of ore.

### 2.3.7 Castrillón

Mineralisation at Castrillón occurs as relatively high grade zones associated with northeast trending quartz veins emplaced into mylonitised and altered granites. These veins were the subject of previous underground mining activity during the early 1900's.

At Castrillón, early exploration by UME gave trench results of 10m at 6.34g/t Au, 6m at 2.52g/t Au, 4m at 45.56g/t Au and 4m at 4.15g/t Au. Drilling to shallow depths (less than 15m) gave initial results of 5.5m at 3.99g/t Au, 5m at 2.06g/t Au, 7.5m at 2.86g/t Au, 6m at 3.06g/t Au, 6m at 3.82g/t Au, 8.5m at 5.76g/t Au and 6m at 3.54g/t Au.

Drilling at Castrillón by UME has included rotary air blast (RAB) and reverse circulation (RC) drilling to a maximum depth of 50m along the strike of the main mineralised vein for a total of just over 2,000m drilled.

### 2.3.8 Sobre Saliente

Gold mineralisation at Sobre Saliente is relatively low grade and is associated with zones of silicification and alteration containing northwest trending quartz veins and stockwork zones within the regional northeast trending mineralised corridor. Mineralisation is associated with pyrite and zones of brittle fracture within the deformed and altered granites. Alteration comprises quartz-hematite-Kspar-pyrite-carbonate-epidote-(sericite).

Crystallex undertook drilling at Sobre Saliente during 2002 and 2003 in joint venture with UME, comprising 82 RC holes for over 5,500m of drilling. Higher grade mineralisation was found to be isolated in small discontinuous zones within a large low grade halo.

## 2.4 Resource Estimates

### 2.4.1 Exploration Data Collection

Resource drilling by UME has been a combination of RC and DC drilling methods, with most (approximately 80%) mineralised zone intercepts at Arenal being RC intercepts.

All drilling rigs were being utilised at the Arenal deposit at the time of the site visit. Drilling at Arenal is undertaken at a nominal drill spacing of 25m down dip and 30m along strike. This drill density is considered appropriate. At the time of the site visit, 140 RC holes and 30 DC holes had been drilled at Arenal. For deeper ore intersections of >150m, pre-collars are drilled using the RC rigs and ore zones are drilled using DC methods. All core is orientated using a conventional spear during DC drilling. All core is drilled at a diameter of NQ. RC drilling utilises a face sampling hammer with a diameter of 4.5 inches. Drillhole collars are marked in the field by cemented PVC pipe. Relevant hole identification data are written in the wet cement for a permanent record.

The drilling by UME is being undertaken to expected industry standards using appropriate equipment and experienced operators.

Drillhole collars are surveyed by the UME mine surveyors. Topographic plans and aerial photographs provide adequate location control during more regional exploration.

No downhole surveying is routinely carried out during drilling by UME. This issue is being addressed, and UME intends to purchase an appropriate surveying tool with which to undertake downhole surveys on all available drillholes at Arenal.

No routine bulk density determinations are undertaken during the UME drilling programs. The bulk densities used for resource estimation at Arenal are assumed to be the same as for the San Gregorio deposit (2.7t/m<sup>3</sup>). Previous testwork in 1999 gave an average density of 2.69t/m<sup>3</sup>. Historical bulk density values used during mining at San Gregorio are 2.82t/m<sup>3</sup> for mafic ore and 2.71t/m<sup>3</sup> for felsic ore. No changes in density with depth consistent with the weathering profile have been investigated.

Geological logging of the RC chips and of the diamond core is considered adequate, and the logs contain sufficient geological and sampling information. Exploration data, including drilling data, are manually entered into Microsoft Excel worksheets from the hard copy logs, assay sheets etc. UME has recently

commenced using Micromine software as the preferred database management software. The drilling database contains the normally expected information, including rock types, alteration, weathering, assay data, core recovery and collar coordinates.

A brief check of the RC drilling database indicates that there are no material differences in the grade distribution between wet and dry RC samples, and there is no obvious smearing of grade downhole due to wet conditions.

The UME Arenal database was validated by RSG Global using the facilities in Micromine. The following general activities were undertaken during database validation:

- Cross check total hole depth and final sample depth data.
- Check for overlapping and missing sampling intervals.
- Check drillhole survey data for unusual or suspect downhole deviations.
- Check lithology and alteration codes.

No material errors were identified.

RSG Global also undertook a database check on site by comparing database entries with hard copy assay sheets and drillhole logs. This work was carried out on all assay results greater than or equal to 5g/t Au, which equates to 7% of the Arenal DC database for assays greater than or equal to 0.1g/t Au, and 11% of the equivalent Arenal RC database. No errors were noted.

#### 2.4.2 Sampling and Assaying

DC sampling is undertaken at 2m intervals or less, depending on geology. Half core is sent for assay following cutting of the core lengthways using a diamond saw. The DC sampling is considered conventional and appropriate.

RC sampling is undertaken using an interval of 2m. The 2m sample intervals are weighed in the field and then split using a riffle splitter to a nominal weight of 10kg, which is sent to the laboratory for assay. Reject samples are left at the drill site. If the RC sample is wet, the material is coned and quartered on site to produce a sub-sample of 10kg for assay.

The RC sampling methods adopted by UME are appropriate and are being undertaken to accepted industry standards. It should be pointed out, however, that wet RC sampling can be problematic and result in unreliable assays. Twinning of a number of wet RC holes with DC holes will be required to demonstrate that the wet RC sample results are acceptable.

Sample preparation and analysis are undertaken at an on-site laboratory operated by American Assays Limited (AAL), using conventional and appropriate sample preparation and analytical (fire assay) methods. Current capacity at the laboratory is approximately 300 samples per day. The laboratory handles grade control samples and all metallurgical samples, in addition to the exploration and resource drilling samples. It is planned to upgrade the laboratory and increase capacity to approximately 400 samples per day, and to have a separate sample preparation stream for exploration samples.

RC field duplicates, comprising a second sample split made at the drill rig, are collected at a frequency of 1 in 15 and submitted to the AAL laboratory sequentially with the original sample batch. Check assays on pulps have been carried out at a number of external laboratories, including AAL in Reno, Nevada, Chemex in Santiago, Chile and Genalysis in Perth, Australia. UME intends to undertake routine umpire assaying at Genalysis.

It is considered that the AAL internal quality control procedures are conventional and appropriate. The UME quality control procedures are restricted to RC field duplicates and some check assaying, and should be expanded to include the submission of standard reference samples.

RSG Global has undertaken a detailed statistical analysis of the available quality control data, including the following:

- Comparative assays between AAL Minas de Corrales, AAL Reno, Chemex and Genalysis.
- RC field duplicate assay data.
- Preparation duplicate assay data.
- Comparative assays between Au1 and Au2 in the UME Arenal DC drilling database, corresponding to the 1 in 10 pulp repeat assays undertaken by the on-site laboratory.
- As above for the Arenal RC drilling database.

Descriptive statistics for each of the datasets are summarised in Table 2.

**Table 2**  
**Arenal Deposit**  
**Summary Descriptive Statistics of Quality Control Datasets**

	<u>Samples</u>	<u>Units</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Mean</u>	<u>Median</u>
AAL Site 01 .....	28	g/t	0.12	62.84	7.22	2.66
AAL Site 02 .....	28	g/t	0.1	24.19	5.08	2.56
AAL Reno .....	27	g/t	0.1	19.7	4.48	2.57
Chemex .....	26	g/t	0.15	22.3	4.78	3.21
Genalysis .....	26	g/t	0.18	27.71	5.68	2.83
Au1 DC .....	65	ppb	52	12,576	1,369.15	452
Au2 DC .....	65	ppb	54	14,896	1,453.97	479
Au1 RC .....	202	ppb	51	13,264	1,328.23	469
Au2 RC .....	202	ppb	51	15,376	1,385.15	487
Prep1 .....	82	ppb	56	2,594	395.21	159
Prep2 .....	82	ppb	52	2,414	376.37	153.5
Field Dups1 .....	119	ppb	50	30,688	1,297.59	368
Field Dups2 .....	119	ppb	50	13,744	1,246.08	382

Following the statistical analyses, a number of plots were constructed with which to interpret the data. An example of these plots is given in Figure 3, which shows the results of the comparative assessment of the Arenal RC repeat assays.

Summary statistics from each of the comparative statistical assessments are given in Table 3.

**Table 3**  
**Arenal Deposit**  
**Summary Comparative Statistics of Quality Control Datasets**

	<u>Pearson CC</u>	<u>Spearman CC</u>	<u>Mean HRD</u>	<u>Median HRD</u>	<u>Mean HARD</u>	<u>Median HARD</u>	<u>HARD at 90% AP</u>	<u>AP at 10% HARD</u>	<u>AP at 20% HARD</u>
AAL Site Au1vsAu2 .....	0.51	0.98	9.47	6.02	19.73	15.67	44	41	69
AAL Site vs AA Reno .....	0.82	1	7.46	8.67	14.92	12.62	29	44	70
AAL Site vs Chemex .....	0.93	1	3.04	4.86	13.71	9.12	30	54	81
AAL Site vs Genalysis .....	0.71	0.97	1.77	3.07	18.05	15.39	34	34	70
AAL Reno vs Chemex .....	0.85	1	(4.58)	(5.53)	12.58	9.75	22	50	73
AAL Reno vs Genalysis .....	0.98	1.02	(5.84)	(7.22)	11.97	10.41	21	49	88
Chemex vs Genalysis .....	0.8	1	(0.95)	0.82	10.91	6.86	29	78	87
Au1 vs Au2 DC .....	0.98	1	(0.91)	0	9.62	6.78	20	65	88
Au1 vs Au2 RC .....	0.89	0.97	0.56	1.15	10.78	7.08	26	63	87
Prep Dups .....	1	0.97	1.86	2.06	8.16	5.15	18	71	94
Field Dups .....	0.75	0.97	(1.25)	(0.5)	13.4	9.24	28	51	77

AP = Assay Pairs HRD.

HRD = Half Relative Difference HARD.

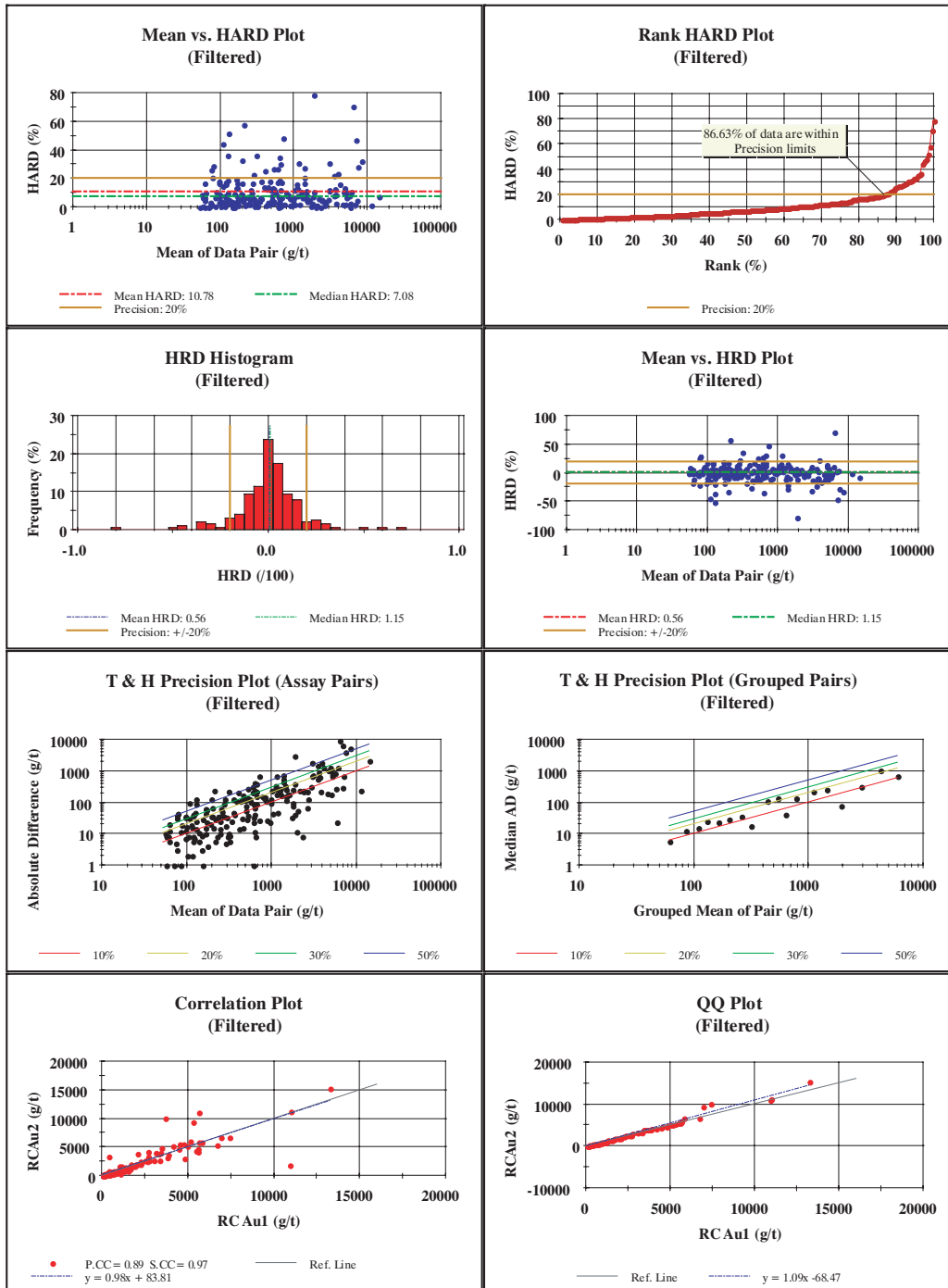
HARD = Half Absolute Relative Difference.

Given that the inter-laboratory and Au1/Au2 comparative assays were undertaken on the same pulps, RSG Global considers that precision is relatively poor and should be improved, particularly when considering that the coarse gold component of the ore is negligible. For these types of repeat assays, RSG Global would normally expect 90% of the assay pairs to be within 10% of each other (or a HARD of 10% or less). Precision does not deteriorate at higher grades. The data appear to be accurate, with no evidence of consistent bias occurring at any of the laboratories.

Figure 3  
Example of QA/QC Plot

## Summary (Filtered)

	RC Au1	RC Au2	Units		Result
No. Pairs:	202	202		Pearson CC:	0.89
Minimum:	51.00	51.00	g/t	Spearman CC:	0.97
Maximum:	13,264.00	15,376.00	g/t	Mean HARD:	10.78
Mean:	1,328.23	1,385.15	g/t	Median HARD:	7.08
Median:	469.00	487.00	g/t	Mean HRD:	0.56
Std. Deviation:	2,025.37	2,230.36	g/t	Median HRD:	1.15
Coefficient of Variation:	1.52	1.61			



RC field duplicate data give similar but less precise results as expected, with approximately 77% of the assay pairs having a HARD of 20% or less. This is considered acceptable for RC field duplicates.

Preparation duplicate data show the best precision of all of the comparative datasets, with approximately 71% of the assay pairs having a HARD of 10% or less and 94% of the assay pairs having a HARD of 20% or less. These data also have the lowest mean and median HARD at 8.16 and 5.15 respectively.

On the basis of the results outlined above, it would appear that the UME RC sampling procedures are not causing more error than normally expected, but the precision obtained from pulp assays is not as good as could be expected. This could be a function of the sample preparation procedures and/or general contamination at the on-site laboratory.

On balance, RSG Global considers that the assay data for Arenal are a reasonable reflection of the mineralisation, and although precision could be improved, the overall precision levels noted above are not materially poor.

## 2.4.3 Resource Estimation

### 2.4.3.1 Introduction

Mineral Resources as reported publicly by UME have been completed by UME personnel, by Mine Development Associates (MDA) in Reno, Nevada or by Widenbar and Associates (Widenbar) in Perth, Australia. The resources were reported by UME in a Consolidated Resource Statement in March 2004, and were independently reviewed for compliance to the NI43-101 reporting requirements by William Lindqvist in May 2004.

The resources for the Minas de Corrales Project as reported by UME in March 2004 are summarised in Table 4.

**Table 4**  
**Minas de Corrales Project**  
**Resources as Reported by UME, March 2004**

Deposit	Tonnes	Grade (g/t Au)	Contained Ounces
<b>Measured Resources</b>			
Arenal . . . . .	1,522,000	2.96	144,900
San Gregorio . . . . .	925,000	2.30	70,600
Zapucay . . . . .	180,000	1.73	10,000
Castrillón . . . . .	82,000	2.19	5,800
Sobre Saliente . . . . .	283,000	1.48	13,400
Stockpiles . . . . .	<u>648,000</u>	<u>0.93</u>	<u>19,440</u>
<b>Total Measured Resources . . . . .</b>	<b><u>3,640,000</u></b>	<b><u>2.24</u></b>	<b><u>264,140</u></b>
<b>Inferred Resources</b>			
Arenal . . . . .	7,556,000	2.26	550,100
San Gregorio . . . . .	1,688,000	1.60	92,100
Rieles . . . . .	992,000	1.64	49,000
Ombú . . . . .	1,152,000	1.26	42,700
Santa Teresa . . . . .	1,681,000	1.23	63,500
Zapucay . . . . .	2,509,000	1.35	110,000
Sobre Saliente . . . . .	6,517,000	0.98	206,600

No Mineral Reserve estimates have been officially released or reported by UME, although pit optimisations have been undertaken to provide an indication of the economic pit profiles. It is expected that Mineral Reserves for the Arenal deposit will be estimated once all drilling data have been compiled and the Arenal resource estimates have been updated.

#### 2.4.3.2 Arenal

The Mineral Resources for Arenal as reported by UME, are a combination of Measured Resources and Inferred Resources as listed below.

- Measured Resources 1,522,000t at 2.96g/t Au
- Inferred Resources 7.6Mt at 2.3g/t Au

The Inferred Resources have been estimated on site by UME personnel using a sectional approach, and arithmetic averages for grade and ore zone thickness have been applied to each sectional block, resulting in blocks of 25m down dip by 30m along strike, extrapolated down dip to the deepest drill intersection on each section. The mineralised zone was constrained by using a 0.5g/t Au lower cut off grade. No top cuts were applied to the data.

The parameters used to estimate the Inferred Resources at Arenal are listed below.

- RC and DC drillhole data used.
- Model extents were 570m along strike, 170m down dip (average) and 19m width (average).
- The area of influence for each mineralised intercept was half the distance to the adjacent sections and down dip to the deepest intercept.
- Bulk density of 2.7t/m<sup>3</sup> (assumed).

This resulted in Inferred Resources of some 5.1Mt at a grade of approximately 2.4g/t Au for approximately 400,000 contained ounces of gold. The published Inferred Resource is larger than this, and is a result of extrapolating the mineralised zone down dip to 300m (the deepest intercept). The current drilling program is investigating the deeper parts of the deposit. Lindqvist describes the Inferred Resources at Arenal to be “liberal but reasonable”, and RSG Global agrees with this comment.

The Arenal resource estimate by Widenbar was completed in December 2003, based on drilling data from 55 RC holes and 7 DC holes. The mineralised zone was digitised and modelled using a nominal 0.5g/t Au lower cut off grade. A block model was created using parent block size of 5m by 5m by 5m, with sub-celling down to 1m to honour the edges of the mineralised zone interpretation. An assumed bulk density of 2.7t/m<sup>3</sup> and a top cut of 20g/t Au were applied. Grade interpolation was by inverse distance weighting to the power of 2. Widenbar reported the results at a number of lower cut off grades for uncut and cut estimates. At a lower cut off grade of 0.5g/t Au, the resources were reported as 2.5Mt at 2.81g/t Au (cut) and 2.97g/t Au (uncut). The Widenbar resource was not classified according to any international resource reporting codes.

The Arenal Measured Resources as reported by UME in March 2004 appear to be those resources as estimated by Widenbar that fall within an optimised pit shell (Phase 1 pit). Based on the site visit and review carried out by RSG Global, the mineralised zone within the Phase 1 pit is continuous and robust and the tonnes and grade available within the Phase I pit as designed by UME should be extracted as planned without difficulty.

The classification of the Arenal Measured Resource is not compliant with the guidelines of the JORC (Australian) or CIM (Canadian) resource reporting codes, however this is not considered a material issue. It should be noted that the Arenal resource estimate will be updated using all the additional drilling data.

#### 2.4.3.3 San Gregorio

Resources reported by UME for San Gregorio are listed below.

- West Extension Inferred Resource 1.7Mt at 1.6g/t Au
- West Extension Measured Resource 925,000t at 2.30g/t Au

The West Extension Inferred Resources comprise that portion of the SGSZ below and along strike from the main San Gregorio open pit. The total strike length is approximately 700m. The Inferred Resources were estimated by UME personnel on site using sectional methods similar to the Arenal Inferred Resources. Assay data were extrapolated for up to 120m down dip from the nearest data point. The average extrapolated distance is approximately 60m. An assumed bulk density of 2.75t/m<sup>3</sup> was applied.

RSG Global considers that the Inferred Resources have been estimated appropriately for this low confidence classification.

The West Extension Measured Resources comprise the relatively high grade ore shoot that extends down plunge below the western end of the main San Gregorio open pit, below the small West Extension slot, where the drill density is high.

UME also reports a small Inferred Resource at Rieles, which is located on the SGSZ immediately to the east of and below the San Gregorio East Extension. The Inferred Resource has been reported as approximately 1.0Mt at 1.6g/t Au. These Inferred Resources have been estimated by UME personnel using sectional methods similar to the Arenal Inferred Resources. An assumed bulk density of 2.75t/m<sup>3</sup> was applied.

The mineralised zone at Rieles extends for approximately 650m along strike. Drilling has been undertaken at a spacing of 25m by 25m and infilled in some areas to 12.5m by 25m. The resource has been extrapolated down dip to the 0mRL, resulting in an average extrapolation of data for 70m down dip and for well over 100m in some instances.

None of these resources contribute to the UME mine plan.

#### 2.4.3.4 *Ombú*

Inferred Resources for Ombú comprising 1.2Mt at 1.3g/t Au have been reported by UME. These resources were estimated by UME personnel using sectional methods similar to the Arenal Inferred Resources. An assumed bulk density of 2.75t/m<sup>3</sup> was applied.

The mineralised zone has been drilled at a spacing of approximately 25m by 25m and 50m by 25m. Data extrapolation down dip from the nearest data points varies from 30m to 100m, with an average of approximately 60m.

The resource classification is appropriate given the methods used for resource estimation.

#### 2.4.3.5 *Santa Teresa*

Total Inferred Resources at Santa Teresa as at March 2004 were reported as 1.7Mt at 1.2g/t Au for approximately 63koz of contained gold. These resources were estimated by UME personnel using sectional methods similar to the Arenal Inferred Resources. An assumed bulk density of 2.75t/m<sup>3</sup> was applied.

The Santa Teresa resources comprise mineralised material below and along strike from the main Santa Teresa mineralised zone. The deposit has been drilled at a nominal spacing of 25m by 25m, with some areas infilled to 12.5m by 25m.

Down dip data extrapolation varies from 30m to 150m, with an average of approximately 95m. The assays reported for many of the drillholes in this area are low, and it is unlikely that the Santa Teresa Inferred Resources could be economically exploited in the short term under current economic parameters. These resources do not contribute to the UME mine plan.

#### 2.4.3.6 *Zapucay*

UME reported Mineral Resources estimated for the Zapucay deposit as listed below.

- Measured Resource 180,000t at 1.73g/t Au
- Inferred Resource 2.5Mt at 1.4g/t Au

The Inferred Resource comprises ore contained within 6 of the 7 structural blocks. Drilling at spacings between 15m and 50m has been undertaken over part of Block 1, and some scattered drillholes have been completed over the remainder of Block 1 and part of Block 2. The other blocks have been interpreted from sampling and assay data collected from old open pits.

The Inferred Resources were estimated by averaging all grade and thickness data for each block and extrapolating to a depth of 30m. It is not known what bulk density value was applied to the volumes within the blocks.

The Zapucay Measured Resource occurs in the area of Block 1 where more close-spaced drilling has been carried out. The drilling comprises vertical RC holes. Very little information is available regarding the inputs and methods used to estimate this resource.

The resource estimate at Zapucay is based on widely-spaced drilling, and the current Measured classification may be somewhat optimistic. This is supported by the fact that the resource grade was estimated as 1.73g/t Au, but UME has determined the mill feed grade from Zapucay to be over 2.0g/t Au. This is a significant difference, and it would appear that both tonnes and grade at Zapucay may have been underestimated.

#### 2.4.3.7 *Castrillón*

UME has reported a Measure Resource at Castrillón of 82,000t at 2.19g/t Au.

The resource was estimated by UME using a sectional approach similar to the Arenal Inferred Resources, using arithmetic averages for grade and thickness for each section. The mineralised zone interpretation was constrained by a 0.5g/t Au lower cut off grade.

The parameters used for the Castrillón resource estimate are as follows:

- All trench, RAB and RC data used. The drilling was at 10m to 15m intervals along strike of the main vein structure.
- The model extents were 300m along strike, 30m down dip and 4m in width (average).
- The area of influence for each mineralised intercept was half the distance to the adjacent sections. The zone of influence down dip was 3m for trench data, 10m for RAB data and 17m for RC data.
- Bulk density of 2.7t/m<sup>3</sup> (assumed).

#### 2.4.3.8 *Sobre Saliente*

UME has reported the resources estimated at Sobre Saliente as follows:

- Measured Resource 283,000t at 1.48g/t Au
- Inferred Resource 6.5Mt at 1.0g/t Au

The resource was estimated by MDA following drilling by Crystallex. No details regarding the estimation process for the Inferred Resources at Sobre Saliente are available, and no geological cross sections were available for review. It is reported that the estimate was undertaken using sectional methods and an assumed bulk density of 2.7t/m<sup>3</sup>, and is based on data from 44 RC holes and 2 DC holes drilled at a spacing of 25m to 50m. The model extents were 1,050m along strike and 100m down dip (average). Polygon widths were variable. It was assumed that mineralisation was continuous between the Western Zone and the Southern Zone.

No information regarding the estimation of the Measured Resources is available.

#### 2.4.3.9 *Stockpiles*

UME has reported Measured Resources for the available stockpiles on site as 648,000t at 0.93g/t Au. The stockpiles comprise medium and low grade ore that is currently an important source of mill feed. Resource estimates subdivided into the different stockpiles are as follows:

- Low grade stockpile 453,000t at 0.80g/t Au
- Medium grade stockpile 178,000 at 0.97g/t Au

The volume of the stockpiles has been estimated using conventional surveying methods. Density values based on operating experience with broken ore at San Gregorio have been applied.

The low grade stockpile was investigated by trenching across the top of the stockpile and collecting 2m channel samples. The reported average grade of the channel samples was 0.8g/t Au, and the estimated head grade of the low grade material treated at the mill to date is also 0.8g/t Au. The grade of the medium grade stockpile has been estimated based on material sent to the mill in January and February 2004. The grade of this material was calculated as 0.97g/t Au.

Estimation of the tonnes and grade of stockpiles is very difficult without access to accurate grade control data pertaining to the stockpiled material as it was mined and dumped, mainly due to the practicalities of obtaining representative samples for assay.

## 2.5 Mining Operations

### 2.5.1 Introduction

UME has been mining ore from a number of open pit sources, primarily in order to provide mill feed until the Arenal deposit could be put into production. Gold production during this time was approximately 4,000oz per month. Mining activity has recently commenced at Arenal, which is expected to be in full production within a few weeks. Mining at Zapucay is continuing, while mining at Ombú and has ceased.

The current UME mine plan assumes mining operations to provide mill feed from Arenal, at a milling rate of 100ktpm for gold production of approximately 110kozpa.

### 2.5.2 Pit Optimisations

Pit optimisations have been undertaken by Widenbar in December 2003 for the Phase I Arenal pit, which includes approximately 250m of strike of the central part of the Arenal mineralised zone. These pit optimisations form the basis for the Arenal Measured Resources (Phase I pit) as reported by UME, based on the Datamine resource model developed by Widenbar. The pit optimisations were carried out using Whittle software. Input parameters included the following:

- Actual operating costs from San Gregorio
- Lower cut off grade 0.7g/t Au
- Metallurgical recovery 92% (assumed)
- Interberm face angle 65°
- Berm width 5m
- Berm spacing 20m
- Haul ramps
  - 1 in 8 gradient, 20m wide from 45mRL to 75mRL
  - 1 in 8 gradient, 15m wide from 75mRL to 90mRL
  - 1 in 10 gradient, 20m wide from 90mRL to surface
- Overall wall slope angles
  - Footwall 38 degrees (follows slope of ore body)
  - hangingwall 40 degrees
  - west wall steepest point 57 degrees
  - east wall steepest point 41 degrees
- Minimum distance from west wall to Arroyo Corrales 63m

No allowance was made for capital costs, however the optimisation assumed that a flood protection bund and diversion trench would be required, as well as a causeway across the Arroyo Corrales. Waste dumps were situated to the south of the open pit. The optimisations were run for a number of different gold prices. Pit slope angles were assumed pending geotechnical investigations.

The optimum pit (Pit 9) Whittle results at a gold price of \$400/oz are shown in Table 5.

RSG Global considers that the pit optimisations have been carried out to acceptable industry standards and the input parameters are generally conservative. Given the lack of definitive feasibility work, it is appropriate that UME has not reported the results of the pit optimisations as Mineral Reserves.

**Table 5**  
**Arenal Deposit**  
**Whittle Results at Gold Price of \$400/oz**

Bench m	Total Tonnes t	Waste t	Ore Tonnes t	Au g/t	Strip Ratio
135 ...	5,260	5,260			
130 ...	84,374	84,374			
125 ...	236,880	227,172	9,708	2.47	23.4
120 ...	423,649	375,734	47,916	2.56	7.8
115 ...	712,216	634,314	77,902	2.53	8.1
110 ...	720,177	631,366	88,812	2.57	7.1
105 ...	676,016	580,532	95,483	2.66	6.1
100 ...	558,492	462,260	96,232	2.71	4.8
95 ....	519,719	408,777	110,943	2.61	3.7
90 ....	479,955	361,628	118,328	2.62	3.1
85 ....	440,532	319,524	121,009	2.72	2.6
80 ....	336,424	213,588	122,836	2.73	1.7
75 ....	303,885	175,186	128,700	2.89	1.4
70 ....	267,408	143,769	123,639	3.41	1.2
65 ....	236,815	121,854	114,961	3.68	1.1
60 ....	161,979	65,880	96,099	3.80	0.7
55 ....	130,681	49,786	80,895	3.61	0.6
50 ....	96,450	42,386	54,065	3.26	0.8
45 ....	65,854	30,938	34,915	2.83	0.9
<b>Total ..</b>	<b><u>6,456,767</u></b>	<b><u>4,934,326</u></b>	<b><u>1,522,440</u></b>	<b><u>2.96</u></b>	<b><u>3.2</u></b>

### 2.5.3 Mining Method and Equipment

Mining is by conventional drill and blast, load and haul open pit methods using 5m or 10m benches.

The current mining fleet has reached the end of its productive life, and consequently maintenance costs are high and availability low. This situation is being rectified by the purchase of new Komatsu haul trucks and excavators. New Tamrock blasthole rigs have also recently been purchased.

### 2.5.4 Open Pit Designs

The Phase I Arenal open pit is restricted to the west by the Arroyo Corrales. No design work has been undertaken for the Phase II or potential Phase III pits at Arenal.

The Phase I pit design for Arenal has been completed by MDA based on the pit optimisations described above. No details of the pit design have been made available to RSG Global, although a plan view of the proposed open pit is given in Figure 4. The actual amount of material and grades contained within the final pit shell can be expected to be slightly different to the results of the pit optimisation due to the affect of ramp design on the pit slope angles.



Actual production statistics during February 2004 to April 2004 inclusive are summarised in Table 6.

**Table 6**  
**Monthly Production Statistics**

	February		March		April		YTD		Diff %
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	
Ore Mined (t) . . . . .	38,475	70,000	31,919	70,000	42,464	27,235	218,994	217,235	0.8
Strip Ratio . . . . .	9.74	4.29	10.92	4.29	11.1	15.16	7.15	6.73	1.1

Arenal commenced operations as scheduled in October 2004 with pre-stripping for the purposes of constructing the protection bund between the Arroyo Corrales and the pit. Until the permanent river crossing is constructed, ore will be hauled across the river using smaller equipment. Larger equipment will haul to waste dumps. Full production is planned to occur in December 2004.

It is planned to mine almost 1.3Mt of ore from the Arenal open pit during the first 12 months of operation, at an overall grade of 2.74g/t Au for the production of approximately 112koz of gold. The overall strip ratio during the first year is estimated at 3.83.

No other open pits will be mined in the short term at Minas de Corrales. Any shortfall in mill feed can be made up from low/medium grade stockpiles that are assumed to have an average grade of 0.86g/t Au.

## 2.6 Hydrology and Hydrogeology

Detailed hydrological and hydrogeological studies with regard to the Phase I open pit at Arenal have included the development of a number of dedicated drillholes for pumping testwork and flow rate determinations.

For development of the Phase II open pit at Arenal, it may be necessary to divert the Arroyo Corrales. This aspect of the project has not been studied in detail and will depend on sufficient ore being defined by future drilling programs.

The hydrology and hydrogeology at Arenal were investigated by Irrigare and Geoambiente, which are consulting groups based in Montevideo. Surveys were undertaken to determine the flow rates and fluctuations in the flow rates in the Arroyo Corrales, which is subject to relatively frequent flooding. A flood protection bund will be constructed to protect the Arenal open pit. According to preliminary designs, this structure will be approximately 700m in length and approximately 12m in height.

Two drillholes equipped with piezometers have been established in the central part of the deposit. Indicated flow rates from these holes were approximately 3.0m<sup>3</sup>/hr. These flow rates are relatively low, however pumping tests made adjacent to the Arroyo Corrales resulted in flow rates of approximately 40m<sup>3</sup>/hr, indicating hydraulic connectivity between the river and the proposed open pit. Of the 15 holes drilled along the margin of the Arroyo Corrales, only 2 indicated such connectivity. The testwork shows that hydraulic connectivity between local aquifers is poor.

It may be possible to grout the fracture zones responsible for the hydraulic connectivity in order to reduce groundwater flows and assist with pit wall and bund stability. It is planned to drill a series of dewatering holes to act as a barrier to groundwater flow, which is generally from the east. Groundwater will be discharged into the Arroyo Corrales downstream of the open pit.

It is estimated in a worst case scenario that a pumping capacity of 120m<sup>3</sup>/hr to 150m<sup>3</sup>/hr will be required, assuming that pit inflows from the river are not reduced due to grouting.

## 2.7 Metallurgy and Ore Processing

### 2.7.1 Metallurgical Testwork

Preliminary bottle roll tests on ore from the Sobre Saliente deposit indicates poor gold recoveries of between 47% and 70%, and this aspect requires further investigation.

A few preliminary bottle roll tests on ore from Arenal have been completed at Genalysis, which show gold recoveries of between 92.3% and 95.8%. No additional variability testwork has been completed at Arenal to investigate changes in metallurgical response throughout the deposit. Given the good recoveries

obtained from the other deposits along the SGSZ, this is not considered a material issue, and high recoveries from Arenal ore can be expected.

No comminution testwork has been undertaken for Arenal. It is assumed that the Arenal ore will have milling characteristics similar to those of the other ores currently being processed. Given the similarities in rock type, alteration assemblages and mineralogy between each of the deposits in the Minas de Corrales area, this is a reasonable assumption.

### 2.7.2 Process Flowsheet

The ore treatment plan is a conventional carbon in pulp (CIP) plant built by Minproc in 1996 with a nominal throughput of 1.0Mtpa. The plant comprises two stage crushing, followed by a SAG mill and a ball mill. A pebble crusher has also been installed to deal with oversize material produced by the SAG mill.

Ore from the ROM pad is fed into the primary crusher by front end loader. Mill product size is a nominal P<sub>80</sub> 150µm. Cyclone underflow comprises approximately 40% by volume, and this material is recirculated back into the SAG mill.

The leach circuit comprises 7 tanks, 6 of which contain carbon. Leach residence time is approximately 24 hours.

New equipment installed by UME includes pre-filtration units and a cyclone nest. It is planned to upgrade the gold room, and security is currently being substantially modernised and expanded.

### 2.7.3 Performance and Recovery

UME has been upgrading the plant in terms of equipment and operational procedures, and has increased gold recoveries from approximately 89% in September 2003 to approximately 95%, as well as increasing throughput from approximately 2,600tpd to almost 4,000tpd. Plant availability has also improved greatly, and production of oversize material has decreased from 55tph to 15tph. These improvements have been achieved by reducing the mill speed, increasing mill power and ball charge and mechanically refurbishing a number of items. Improved adsorption efficiency and correct configuration of agitator blades have also contributed to the performance improvement.

Processing statistics for February 2004 to April 2004 inclusive are summarised in Table 7.

**Table 7**  
**Monthly Ore Processing Statistics**

	February		March		April		YTD		
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Diff %
Ore Milled (t) . . . . .	82,103	74,995	81,978	81,625	80,187	81,625	314,520	321,275	(2.1)
Au Recovered (oz) . . . . .	3,947	3,447	4,162	3,169	4,039	3,169	16,264	13,703	15.7
Grade (g/t Au) . . . . .	1.59	1.51	1.67	1.28	1.64	1.28	1.7	1.41	20.6
Recovery (%) . . . . .	94.1	94.7	94.6	94	95.7	94	94.7	94	0.7

For future operations, the crusher is forecast to operate for 12 hours per day and have an availability of over 95%. A crushed ore stockpile of 5,000t (2 days production) will be maintained. Mill availability is assumed at 92%, and leach plant availability has been set at 100%.

Recovery is expected to be 94% for Arenal, Ombú and Zapucay ore. Testwork on Sobre Saliente ore indicates that recovery may drop significantly, although more work is required. Silver recovery is expected to be 30%.

Based on operational experience, consumption of cyanide and lime is estimated as 0.42kg/t and 1.8kg/t of ore processed respectively.

## 2.8 Tailings Storage Operations

The TSF is currently undergoing a Phase 5 lift, which is almost complete. This will increase capacity to approximately 1.2Mt. It is considered that 3 more lifts are available on the current TSF over the next 3 years, which would increase capacity by approximately 3.0Mt. A new TSF is planned for construction adjacent to the current facility, if required.

The TSF is lined with HDPE, and all subsequent lifts will be similarly lined. Geoambiente has been undertaking site and groundwater investigations at the proposed new TSF site, as well as materials availability investigations for impoundment and embankment construction.

The TSF is being operated to high environmental standards, and downstream monitoring is effective. Rice is farmed downstream from the TSF without any apparent contamination problems.

## **2.9 Infrastructure and Services**

Infrastructure and services are considered good, and no material issues are expected in this regard.

Power is supplied from the national grid, and some 2,700,000kw of power are purchased from the grid each month. A backup power plant is available, however this is only sufficient to run the leach plant.

Water is supplied from a raw water dam upstream from the TSF. The dam captures the local catchment and has provided sufficient capacity to date.

Apart from the administration offices (which may have to be relocated to facilitate mining at Ombú) other buildings comprise the normally expected warehouse, workshops, laboratory etc. UME has made a number of improvements in this area, including the construction of new workshops for the Komatsu fleet and significant upgrading of other facilities.

Communication is by mobile telephone and by radio telephone. Communications appear to be effective.

A causeway will be constructed across the Arroyo Corrales in order for ore to be hauled directly to the ore treatment plant at San Gregorio. A bridge is not practical due to the extent of flooding of the river on occasion. Flooding will prevent the causeway being used at times, however flood durations are short, and this is not expected to be a significant issue.

A temporary bridge has been constructed to allow crossing of the river with small road trucks until the causeway can be built. The causeway is expected to be finished in the first quarter of 2005.

All other haul roads are well maintained and no access problems are envisaged.

## **2.10 Environmental Impacts and Liabilities**

Waste rock used for construction of the TSF, roads and the proposed flood diversion bund at Arenal does not contain significant amounts of sulphides and is not acid producing. Consequently, the issue of acid rock drainage (ARD) from these structures and from the waste dumps themselves is not considered significant.

Other environmental impacts are similar to those normally expected from similar operations. Maintaining low cyanide concentrations in the TSF and a zero discharge policy will be the main environmental challenges.

Routine periodic environmental monitoring at the site appears to be undertaken to high international standards. A monitoring pond and a number of monitoring bores are located downstream of the TSF.

Routine environmental monitoring includes the following:

- Animal mortality, precipitation, temperature, evaporation and solution levels at all ponds and wells.
- Cyanide concentration and pH at process plant discharge, TSF and other water impoundments.

The Uruguay mining legislation requires all mining title applications to be supported by guarantees for any environmental rehabilitation work resulting from mining and exploration activities. The guarantees are to be posted by non-title holders.

For exploration activities, the total guarantees provided as at the end of February 2004 were \$535,190. In addition, a rehabilitation guarantee for the San Gregorio mine site of \$1.5M is being held in escrow in a Canadian bank.

Environmental liabilities associated with mining activity by UME are not expected to be onerous and will comprise the normally expected rehabilitation and mine closure requirements.

## **2.11 Exploration Potential**

It is possible that with additional infill resource definition drilling, the Ombú and San Gregorio pits could merge into a single open pit.

It is considered that there is good potential for the definition of additional ore shoots below and between all open pits, however a substantial amount of close-spaced drilling is required in order to ascertain this.

Recent UME drilling results indicate that good potential exists below the San Gregorio East Extension pit. There appears to be limited potential between the San Gregorio main open pit and the East Extension (Rieles Zone), however additional infill drilling is required. There is obvious potential to extend and deepen the San Gregorio main open pit below the San Gregorio West slot. There is unknown potential below the planned base of the Ombú open pit. Results to date are relatively low grade, but infill drilling is required. There appears to be poor potential below the Santa Teresa open pits.

There is obvious exploration potential along the remaining strike length of the SGSZ, however exploration in these areas is at an earlier stage than the near-mine exploration. A structural model for the mineralisation associated with the SGSZ at the Minas de Corrales Project could potentially be applied to the remaining strike length of the SGSZ in order to define areas of high priority.

### 3 GLOSSARY OF TECHNICAL TERMS

acid rock drainage (ARD)	Drainage that occurs as a result of natural oxidation of sulphide minerals contained in rock that is exposed to air and water. It is not confined to mining activities, but can occur wherever sulphide-bearing rock is exposed to air and water.
alteration	Change in mineral and chemical composition of rock, commonly brought about by reactions to weathering or to hydrothermal solutions.
ball mill	Part of processing plant that allows fine pulverisation of ore by large metal balls.
benches	A ledge that forms a single level of operation above which minerals or waste materials are excavated from a contiguous bank or bench face.
berm	A horizontal shelf or ledge built into the embankment or sloping wall of an open pit or quarry to break the continuity of an otherwise long slope and to strengthen its stability or to catch and arrest slide material. A berm may be used as a haulage road or serve as a bench above which material is excavated from a bank or bench face.
blasthole	A hole drilled for the purpose of filling with explosives in order to fragment rocks during mining.
block model	A 3D array of cells constructed to enable recording of variables of interest such as grade and geology.
bottle roll tests	Small scale cyanide leach tests undertaken in a laboratory.
brittle	Rock deformation characterised by brittle fracturing and brecciation.
carbon in pulp (CIP)	Process whereby gold is extracted from ore in a cyanide solution which is then passed over activated carbon pulp to adsorb the gold for subsequent refining.
carbonate	A rock, sedimentary in origin, composed primarily of calcium, magnesium or iron and CO <sub>3</sub> . Essential component of limestones and marbles.
chlorite	A green coloured hydrated aluminium-iron-magnesium silicate mineral (mica) common in metamorphic rocks.
comminution	The breaking, crushing, or grinding by mechanical means of stone, coal, or ore, for direct use or further processing.
diamond core (DC)	Method of obtaining cylindrical core of rock by drilling with a diamond set or diamond impregnated bit.
diorite	The coarse-grained plutonic equivalent of an andesite.
ductile	Deformation of rocks or rock structures involving stretching or bending in a plastic manner without breaking.
epidote	A mafic silicate of aluminium, calcium and iron.
feldspar	A group of rock forming minerals.
felsic	Light colour rocks containing an abundance of feldspars, feldspathoids and silica.
fire assay	The assaying of metallic ores, usually gold and silver, by methods requiring a furnace heat.
footwall	The mass of rock lying below a fault, vein or zone of mineralisation.
granite	A coarse-grained igneous rock containing mainly quartz and feldspar minerals and subordinate micas.
greenschist	A metamorphosed mafic igneous rock which owes its colour and schistosity to abundant chlorite.

greenstone	A term applied in regional context to lithologies characterised by greenschist facies metamorphism.
grout	A pumpable slurry of neat cement or a mixture of neat cement and fine sand, commonly forced into boreholes or crevices in a rock to prevent ground water from seeping or flowing into an excavation, to seal crevices in a dam foundation, or to consolidate and cement together rock fragments in a brecciated or fragmented formation.
hangingwall	The mass of rock above a fault, vein or zone of mineralisation.
HARD	Half Absolute Relative Difference.
hematite	Iron oxide mineral, Fe <sub>2</sub> O <sub>3</sub> .
hydrothermal	Pertaining to hot aqueous solutions, usually of magmatic origin, which may transport metals and minerals in solution.
Inferred Resources	In situ mineral resource calculated with a low confidence level to which economic parameters cannot be applied.
inverse distance weighting	A grade estimation technique in which the influence of assays is determined by the inverse of the square of the distance away from the point being estimated.
mafic	Pertaining to, or composed dominantly of, the dark coloured ferromagnesian rock forming silicates.
Measured Resources	In situ mineral resource calculated with a high confidence level to which economic parameters have not been applied.
metamorphism	The process of altering a rock by temperature and/or pressure.
Mineral Reserve	Ore Reserves are those portions of Mineral Resources which, after the application of all mining factors, result in an estimated tonnage and grade which, in the opinion of the Competent Person or Persons making the estimates, can be the basis of a viable project after taking account of all relevant metallurgical, economic, marketing, legal, environmental, social and governmental factors. Ore Reserves are inclusive of diluting material which will be mined and delivered to the treatment plant or equivalent.
Mineral Resources	The estimated quantity and grade of mineralisation that is of potential merit. A resource estimate does not require specific mining, metallurgical, environmental, price or cost data, but the nature and continuity of mineralisation must be understood to a specific degree of knowledge.
mylonites	A hard compact rock with a streaky or banded structure produced by extreme granulation of the original rock mass in a fault or thrust zone.
pebble crusher	A simple crusher used to reduce the particle size of ore not effectively pulverised in a ball mill or SAG mill.
piezometers	Tool used to measure fluid flow.
potassium	A highly reactive metallic element of the alkali group; it is soft, light, and silvery. Symbol, K.
Proterozoic	An era of geological time spanning the period from 2,500 million years to 570 million years before present.
pyrite	An iron sulphide mineral FeS <sub>2</sub> .
reverse circulation (RC)	Drilling method employing a repeated hammering action on a drill bit which yields sample material which is delivered to the surface inside the rod string by compressed air.
rotary air blast (RAB)	Drilling method employing a repeated rotary on a drill bit, which yields sample material delivered to the surface outside the rod string by compressed air.

sericite	A mica mineral very common as an alteration product in metamorphic and hydrothermally altered rocks.
shear zone	A zone in which shearing has occurred on a large scale, so that the rock is crushed and brecciated.
silica	Dioxide of silicon, SiO <sub>2</sub> , usually found as the various forms of quartz.
stockpiles	Dump of broken and transported waste, or ore awaiting processing.
strip ratio	The ratio of the volume of waste material removed to the volume of ore removed, used in connection with open pit mining.
sulphide	A general term to cover minerals containing sulphur and commonly associated with mineralisation.
top cuts	The upper grade to which all values above this grade are reduced during resource estimation.
weathering	The effect on rocks and ore minerals of prolonged exposure to atmospheric elements such as water and oxygen.

## PART III

### RISK FACTORS

**In addition to the other information set out in this document, the following specific risk factors should be considered carefully in evaluating whether to make an investment in the Company. If any of the following risks actually occur, the Group's business, financial condition, results or future operations could be materially adversely affected. In such a case, the price of its shares could decline and investors might lose part or all of their investment. If you are in any doubt about the action you should take, you should consult a person authorised under the UK Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. The risk factors which should be taken into account in assessing the Group's activities are not necessarily limited to the matters set out below.**

#### **1. General mining and processing risk**

There are risks, including financial risks, inherent in the development and exploitation of mineral deposits. These risks are often outside the Group's control and include geological, geotechnical and seismic factors, industrial and mechanical accidents, unscheduled plant shutdowns or other processing problems, technical failures, labour disputes and environmental hazards.

As is common with all mining operations, there is also uncertainty and therefore risk associated with the Group's operating parameters and costs. These can be difficult to predict and are often affected by factors outside the Group's control.

#### **2. General mineral exploration risk**

General exploration in the mining industry contains an element of risk and there can be no guarantee that the estimates of quantities and grades of minerals disclosed will be ultimately extracted. There is uncertainty, and therefore risk, associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Mineral exploration is speculative in nature and there can be no assurance that any mineralisation discovered will result in an increase in a Group's proven and probable reserves.

If reserves are developed, it can take a number of years from the initial phases of drilling and identification of mineralisation until production is possible, during which time the economic feasibility of production may change. Substantial expenditures may be required to establish ore reserves, to determine metallurgical processes to extract metals from ore and, in the cases of new properties, to construct mining and processing facilities. As a result of these uncertainties, there can be no assurance that exploration programmes will result in any new commercial mining activities being brought into operation.

#### **3. Resource estimates**

The Group has derived the resources presented in this document from the calculations and estimates prepared by the management and reported in the Competent Person's Report set out in Part II of this document. Resource estimates may require revision based on actual production experience. Further, a decline in metal prices may render lower grade material uneconomic to recover.

#### **4. Operational risks**

The Group's operational targets, including expansion plans, are subject to the completion of planned operational goals on time and according to budget, and are dependent on the effective support of the Group's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets and expansion plans with a consequent adverse effect on the Group's financial performance and outlook.

The locations of all of the Group's current gold operations dictate that climatic conditions have an impact on operations, and in particular, severe weather could disrupt the delivery of supplies, equipment, power and fuel. It is therefore possible that gold production levels might fluctuate and income be deferred. In addition, ore is currently extracted from a number of sources, some of which are interdependent. Scheduling of activities is accordingly complex and there is a risk that ore supply might be adversely affected as a result.

The San Gregorio plant is eight years old, and unscheduled plant shut-downs due to mechanical or other failures can be expected. These shut-downs or industrial relations related issues or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations.

#### **5. Mechanical parts availability**

Key mechanical parts associated with the Group's activities could break down or fail to function correctly. The time taken to replace such mechanical parts (if unavailable immediately) could affect the Group's ability to function at maximum efficiency, and furthermore, may result in the closure of operations whilst the parts are replaced.

#### **6. Licences/title risks**

All prospecting, exploration and mining licences and titles in Uruguay are granted by the Government of Uruguay for finite periods of time. The Government is bound by strict rules of priority of application, and security of title once granted. However Uruguay is a sovereign state, and there can be no guarantee that the State will grant, continue to grant or respect mining titles, and that the titles of the properties will not be challenged or negated for political or legal reasons.

Individual titles expire from time to time and Uruguay Minerals manage the process of retaining its rights by re-application or conversion to other forms of title relevant to each stage of development. The process of re-application involves some risk however, as released titles must fall open before they can be re-applied for.

#### **7. Commodity prices and exchange rate risks**

Gold and other minerals are sold throughout the world, principally in US dollars. The Group's operating costs are also incurred principally in US dollars, and as a result, the Group is relatively isolated from appreciation of the Uruguayan pesos or Canadian dollars against the US dollar. Any sustained reduction in mineral prices, however, could serve to materially reduce the Group's revenues and profitability, and could render uneconomical any, or all, of the projects.

It is the Group's policy not to enter into future contracts in respect of the sale of its gold production, unless specifically required to do so.

The Group's cash balances are held principally in United States dollars in a Canadian bank. The insolvency of the Canadian bank would have an adverse impact on the future projects that the existing cash balances could fund.

#### **8. General economic and political risks**

Although political conditions in Uruguay are stable, the political and economic conditions have not been stable in countries that surround it. Changes may occur in Uruguay's political, fiscal and legal system that might affect the ownership or operation of the Group's interests, including *inter alia*, changes in exchange control regulations, expropriation of mining rights, changes of government and in legislative and regulatory regimes. Changes to Uruguayan policies such as taxation and royalties can significantly effect the value of the Company's assets.

#### **9. Competition risk**

The mineral exploration and mining business is competitive in all of its phases. Uruguay Minerals competes with numerous other companies and individuals, including competitors with greater financial, technical and other resources, in the search for and the acquisition of attractive mineral properties. The Group's ability to acquire properties in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire promising properties or prospects for mineral exploration. There is no assurance that Uruguay Minerals will continue to be able to compete successfully with its competitors in acquiring such properties or prospects.

#### **10. Environmental risk**

Environmental legislation is evolving in a manner that 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 can be no assurance that future changes to environmental regulation, if any, will not adversely affect the Group's operations or the value of its assets. Environmental hazards may exist on the properties in which the Group holds interests that have been caused by previous or existing owners or operators. The Group cannot guarantee that compliance with environmental reclamation, closure and other requirements may not involve costs and other liabilities in the future.

#### **11. Key personnel**

The Group is dependent on the services of certain key employees. The Group intends to enter into employment contracts with such employees although the retention of their services cannot be guaranteed, nor can the Group guarantee that they will not become incapacitated.

#### **12. Financing risk**

The Group may, when and where it considers it appropriate, bring in external partners to develop certain of its projects should they progress to development stage. The development of these projects may require a significant capital investment by these partners. If no partner is willing to enter into an agreement on terms that the Board considers to be reasonable, then the Group may fund the development itself. In either case there can be no guarantees that such finance will be available.

Various factors, including fluctuations in international stock markets, may cause the potential partnerships that the Group may seek (particularly with the major mining companies) to be difficult to consummate on reasonable terms.

#### **13. Insurance risk**

The Group, as a participant in extraction and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, the Group may incur a liability to third parties (in excess of any insurance cover) arising from negative environmental impact or other damage or injury.

#### **14. Investment risk**

Although the Common Shares are to be admitted to trading on AIM, this does not imply that there will be a liquid market in the Common Shares. The Common Shares will not be listed on the Official List.

Investors should be aware that the value of the Common Shares may be volatile and may go down as well as up and therefore investors may not recover their original investment. In addition, the market price of the Common Shares may not reflect the underlying value of the Group's net assets. The price at which investors may dispose of their Common Shares may be influenced by a number of factors, some of which may pertain to the Group and others of which may be outside the Group's control.

**PART IV**  
**ACCOUNTING INFORMATION ON THE GROUP**  
**PART A: URUGUAY MINERAL EXPLORATION INC.**



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9 December 2004

Dear Sirs

**Uruguay Mineral Exploration Inc. (“the Company”) and its subsidiaries (“the Group”)**

We report on the financial information of the Group set out below. This financial information has been prepared for inclusion in the admission document dated 9 December 2004 (the “Admission Document”) relating to the admission to AIM of the common shares of the Company.

**Basis of preparation**

The financial information set out in this report, which has been prepared on the basis set out below and in accordance with applicable Canadian generally accepted accounting principles (“Canadian GAAP”), is based on the audited consolidated financial statements of the Group for the three years ended 31 May 2004 to which no adjustments were considered necessary. A summary of differences between Canadian GAAP and International Financial Reporting Standards (“IFRS”) is included in Note 17 to this accountants’ report.

**Responsibility**

Such financial statements are the responsibility of the directors of the Company who approved their issue.

The Directors of the Company are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the

preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion, the financial information set out below gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at the dates stated and of income/losses, for the years then ended.

We consent to the inclusion in the Admission Document of this report and accept responsibility for this report for the purposes of paragraph 45 (2)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 MAY 2002, 2003 AND 2004**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
	US\$	US\$	US\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	1,443,738	1,597,168	4,970,680
Accounts receivable (Note 5)	80,136	39,497	1,442,021
Inventories (Note 6)	—	—	4,087,809
Prepaid expenses and other	33,606	46,263	668,526
	<u>1,557,480</u>	<u>1,682,928</u>	<u>11,169,036</u>
<b>Employee loans (Note 10)</b>	18,669	—	—
<b>Refundable deposits (Note 5(b))</b>	34,644	34,574	125,378
<b>Property, plant and equipment (Note 7)</b>	25,393	45,350	5,034,228
<b>Deferred exploration and development costs (Note 8)</b>	6,508,312	8,010,010	9,665,431
<b>Total assets</b>	<u>8,144,498</u>	<u>9,772,862</u>	<u>25,994,073</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	54,256	62,359	3,570,273
Obligation on acquisition (Note 4(a))	—	—	700,000
	<u>54,256</u>	<u>62,359</u>	<u>4,270,273</u>
<b>Asset retirement obligation (Note 3(a))</b>	—	—	1,362,542
<b>Total liabilities</b>	<u>54,256</u>	<u>62,359</u>	<u>5,632,815</u>
<b>Shareholders' equity</b>			
<b>Equity instruments (Note 9(b))</b>	9,700,170	11,543,891	20,817,115
<b>Contributed surplus</b>	—	60,000	880,700
<b>Subscriptions receivable</b>	—	(3,661)	—
<b>Cumulative translation adjustment</b>	(18,620)	(18,620)	(18,620)
<b>Deficit</b>	<u>(1,591,308)</u>	<u>(1,871,107)</u>	<u>(1,317,937)</u>
<b>Total shareholders' equity</b>	<u>8,090,242</u>	<u>9,710,503</u>	<u>20,361,258</u>
<b>Total liabilities and shareholders' equity</b>	<u>8,144,498</u>	<u>9,772,862</u>	<u>25,994,073</u>

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

**CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT**  
**FOR YEARS ENDED 31 MAY 2002, 2003 AND 2004**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
	US\$	US\$	US\$
<b>Sales</b>	2,881	—	13,988,930
<b>Operating expenses</b>	<u>—</u>	<u>—</u>	<u>10,753,063</u>
<b>Contribution margin</b>	<u>2,881</u>	<u>—</u>	<u>3,235,867</u>
<b>Other expenses</b>			
Amortisation—depletion and accretion	19,438	354	647,213
Compensation expense—stock based	—	60,000	820,700
General and administrative	171,369	219,445	956,952
Write off of mineral properties	312,903	—	—
Interest	<u>—</u>	<u>—</u>	<u>77,211</u>
	(503,710)	279,799	2,502,076
<b>Income (loss) before other items and taxes</b>	<u>(500,829)</u>	<u>(279,799)</u>	<u>733,791</u>
<b>Other items</b>			
Interest and other income	—	—	8,937
Foreign exchange loss	<u>—</u>	<u>—</u>	<u>(189,558)</u>
	—	—	(180,621)
<b>Income (loss) before taxes</b>	<u>(500,829)</u>	<u>(279,799)</u>	<u>553,170</u>
<b>Income taxes (Note 12)</b>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Net income (loss) for the year</b>	<u>(500,829)</u>	<u>(279,799)</u>	<u>533,170</u>
<b>Deficit, beginning of year</b>	<u>(1,090,479)</u>	<u>(1,591,308)</u>	<u>(1,871,107)</u>
<b>Deficit, end of year</b>	<u>(1,591,308)</u>	<u>(1,871,107)</u>	<u>(1,317,937)</u>
<b>Basic earnings (loss) per share</b>	(0.019)	(0.008)	0.014
<b>Diluted earnings (loss) per share</b>	(0.019)	(0.008)	0.012

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

**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR YEARS ENDED 31 MAY 2002, 2003 AND 2004**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
	US\$	US\$	US\$
<b>Operating activities</b>			
Net income (loss) for the year	(500,829)	(279,799)	553,170
Non cash items			
Amortisation, depletion and accretion	19,438	354	647,213
Foreign exchange	—	—	(1,172)
Compensation expense—stock based	—	60,000	820,700
Write off of mineral properties	312,903	—	—
	<u>(168,488)</u>	<u>(219,445)</u>	<u>2,019,911</u>
Net change in non-cash working capital balances (Note 15)	63,397	54,509	(1,324,738)
	<u>(105,091)</u>	<u>(164,936)</u>	<u>695,173</u>
<b>Financing activity</b>			
Proceeds from the issue of share capital, net of issue costs	1,690,828	1,840,375	9,276,885
<b>Investing activities</b>			
Foreign exchange	24,477	—	—
Refundable deposits	—	—	34,574
Purchase of property, plant and equipment	(7,716)	(20,311)	(1,829,444)
Payments for exploration	(863,243)	(1,501,698)	(1,655,421)
Payments on subsidiaries acquired, net of cash acquired	—	—	(3,148,255)
	<u>(846,482)</u>	<u>(1,522,009)</u>	<u>(6,598,546)</u>
Increase in cash and cash equivalents	739,255	153,430	3,373,512
Cash and cash equivalents, beginning of year	704,483	1,443,738	1,597,168
Cash and cash equivalents, end of year	<u>1,443,738</u>	<u>1,597,168</u>	<u>4,970,680</u>
Represented by:			
Cash and cash equivalents (Note 15 (b))	1,443,738	1,597,168	3,470,680
Cash held in escrow (Note 8 (c))	—	—	1,500,000
	<u>1,443,738</u>	<u>1,597,168</u>	<u>4,970,680</u>

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

## **1. NATURE OF OPERATIONS**

The Company was incorporated on 16 October 1996, as 713257 Alberta Inc. pursuant to the Alberta Business Corporation Act (Alberta). On 31 January 1997 the Company changed its name to Uruguay Goldfields Inc. On 13 February 1998, the Company amalgamated with Canadian Black River Petroleum Ltd. and thereafter maintained the name of Uruguay Goldfields Inc. On 8 February 2003, the Corporation changed its name to Uruguay Mineral Exploration Inc. and continued from the Province of Alberta to the Yukon Territory to be governed by the corporate laws of the Yukon Territory. The Company's shares are listed on the TSX Venture Exchange in Canada.

Since inception, the Company's efforts have been devoted to the acquisition and exploration of mineral properties either directly or through joint ventures. Effective 1 October 2003 the Company purchased the San Gregorio mine and processing plant. As a result the Company's gold resources in the Minas de Coralles region close to the mine are being developed and are expected to commence commercial production prior to 31 December 2004. The Company's other exploration projects in Uruguay have not yet reached a stage to determine whether these properties contain ore reserves that are economically recoverable. Accordingly, throughout the period of these consolidated financial statements, the costs related to mineral property exploration, other than those in the San Gregorio region, have been considered as costs related to the pre-operating stage. Once the Company completes preliminary testing of these properties and commences commercial production, these properties will be considered to be in the commercial operations phase.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The reporting currency used is the United States dollar which is also the Company's functional currency. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarised below.

### **(a) Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries from their respective dates of acquisition. All material intercompany transactions have been eliminated. The reference to "the Company" in these consolidated financial statements includes the parent and all of its subsidiaries.

### **(b) Foreign currency**

Monetary assets and liabilities of integrated operations that are not denominated in United States Dollars are translated at the rate of exchange prevailing at the year end, while revenues and expenses are translated at average rates of exchange during the year. Exchange gains and losses arising on the translation of the accounts are included in consolidated earnings. Non-monetary items are translated at historical exchange rates.

The Company translates the accounts of its foreign subsidiaries with self-sustaining operations using the current rate method on the following basis:

- (i) Assets and liabilities are translated at the rate prevailing at the balance sheet date;
- (ii) Revenue and expense items are translated at an average exchange rate for the year; and
- (iii) Exchange gains and losses arising on translation are deferred and included in a separate component of shareholders' equity.

At 31 May 2004, none of the subsidiaries had self sustaining operations.

### **(c) Cash and equivalents**

Cash and equivalents consist of cash in bank and money market deposits with maturity dates of three months or less and cashable government certificates (Note 15(b)).

(d) Property, plant and equipment

Plant and equipment are recorded at cost less accumulated amortisation. Mobile and other equipment are amortised on a straight line method over the estimated productive life of the asset. Productive lives for mobile and other equipment range from 2 to 5 years, but do not exceed the related estimated life of the mine. Plant and other facilities used in carrying out the mine operating plan, are amortised, net of salvage value, using a units of production method over the estimated life of the mine based on tones of ore processed from proven and probable reserves.

*Mineral properties*

Mineral properties include development costs incurred to bring a mining property into production, develop new ore bodies or develop mining areas in advance of production are capitalised and charged to operations using the units of production method based on the estimated life of the mine. Amounts shown as development costs are net of metal recoveries prior to production. Once producing, the group expenses open pit stripping costs as incurred.

Proceeds from disposition of mineral properties are normally credited to the capitalised costs with no gain or loss being recognised unless the sale is significant to the capitalised property costs. For such significant dispositions, a gain or loss would be recognised. Expenditures attributed to abandoned projects are written off in the year that the project is abandoned.

*Property evaluations*

The Company reviews and evaluates the carrying value of its mines and development properties on a periodic basis. Estimated future discounted net cash flows are calculated for each property using estimated reserves and/or resources, estimated future commodity price and after deducting estimated, production related expenses, abandonment and reclamation costs. If the carrying value of the property exceeds the undiscounted cash flows, an impairment loss will be determined. The impairment loss is measured as the amount by which the carrying amount of assets capitalised in a cost centre exceeds the fair value.

(e) Deferred exploration and development costs

The Company is engaged in the acquisition, exploration and development of exploration properties. All acquisition, exploration such as topographical, geochemical and geophysical studies and related direct and indirect overhead expenditures are deferred and carried at cost until the properties to which they relate are placed into commercial operations, sold or where management has determined there to be a permanent impairment in value. Mineral properties and development costs include acquisition costs, direct mineral exploration costs and capitalised indirect overheads. These costs are capitalised and deferred until the property is in commercial production, when these costs will be depleted as detailed in Note 2(d) above. The costs relating to a property abandoned are written off when the decision to abandon is made, or when there has been a delay in development activities that extend beyond three years, unless there is persuasive evidence to the contrary.

The amount recorded as capitalised indirect overheads under deferred exploration and development costs is based on estimates and breakdown between exploration and development costs versus general and administrative activities. By their nature, these estimates are based on management's judgment and planned course of action. These estimates are subject to measurement uncertainty and the effect on the consolidated financial statements for changes in estimates in future periods could be significant.

The recoverability of amounts shown for deferred exploration and development costs is dependent upon the discovery of economically recoverable reserves, continued confirmation of the Company's interest in the underlying concessions, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or proceeds from disposition or farm-out of existing mining interests. The total amount recorded for deferred exploration and development costs represents expenditures incurred to date and does not reflect nor is an indicator of present or future values.

(f) Inventories

Expenditures incurred in the mining and processing activities that will result in future gold production are stated at the lower of average production cost and net realizable value. These capitalised costs are classified as ore stockpiles, in process inventories and finished metals.

### *Ore stockpiles*

Ore stockpiles are comprised of coarse ore that has been extracted from the mine and is available for processing. Stockpiles are measured by estimating the number of trucks added and removed from the stockpile. Stockpiles are verified by periodic surveys. Costs are added to stockpiles based upon the current mining cost per tonne and removed at the average cost per tonne. Ore with a marginal cutoff grade is stockpiled for potential future processing but is carried at zero value.

### *In process inventories*

In process inventories represent materials that are currently being converted to a saleable product. In process materials are measured based on assays of the material fed to the processing plants and expected recoveries. In process inventories are valued at the lower of average cost of materials fed to the processing plant attributable to source material coming from each mine or stockpile and net realizable value.

### *Finished metals*

Finished metal inventories, comprising gold and silver dore, are valued at the lower of average production cost and net realizable value. Average production cost represents the average cost of in process inventories prior to the refining process and any relevant refining costs.

### *Materials and supplies*

Materials and supplies are value at the lower of average cost and replacement cost.

#### (g) Future income taxes

The liability method is used to account for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using substantially enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. On business acquisitions, where differences between assigned values and tax basis of assets acquired and liabilities assumed exist, the Company recognises the future tax assets and liabilities for the tax effects of such differences.

#### (h) Asset retirement obligations

Effective 1 January 2004, the Company adopted the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. This section requires that the Company recognises the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site by site basis. The liability is subsequently adjusted for the passage of time, and is recognised as an accretion expense in the statement of operations under asset retirement obligations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortised using the unit of production method based on estimated gross proven reserves as determined by independent engineers. Actual expenditures incurred are charged against the accumulated obligation.

#### (i) Revenue recognition

Revenue from mining operations is recognised after shipment of gold to third party refineries, when the sales price is fixed, title has passed to the customer and collection of the sale is reasonably assured. Sales include government incentives provided to the Company for the export sales. The incentive is based on the value of exports.

#### (j) Stock-based compensation plan

Effective 1 June 2002, the Company adopted the recommendations of CICA Handbook Section 3870; Stock based compensation and other stock-based payments. This section requires that direct awards of stock and liabilities based on the price of common stock be measured at fair value at each reporting date, with the change in fair value reported in the statements of operations and encourages, but does not require, the use of the fair value method for all other types of stock-based compensation plans. None of the Company's plans qualify as direct awards of stock or as plans that create liabilities based on the price of the company's stock and, as a result, the implementation of the section has no impact on the consolidated financial statements. The Company has chosen not to use the fair value method to account for stock-based

employee compensation plans, but to disclose pro-forma information for options granted after 1 June 2002. The Company records no compensation expense when options are issued to employees. Any consideration paid by employees on the exercise of the options is credited to capital stock. Compensation expense is recorded for options issued to consultants and non-employees.

Effective 1 June 2003, the Company adopted the recommendations of the CICA Handbook Section 3870 “Stock Based Compensation and Other Stock-Based Payments”. This section was amended to require the expensing of all stock based compensation awards for fiscal years beginning after 1 January 2004. The Company has chosen to adopt the recommendation prospectively thereby recording the fair value of the stock options since 1 June 2003 in the statement of operations using the Black-Scholes option-pricing model.

(k) Financial instruments

The Company carries various forms of financial instruments. Unless otherwise indicated, it is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(l) Per share amounts

Basic earnings (loss) per common share is computed by dividing the net loss by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive instruments.

(m) Joint venture

Certain of the Company’s exploration and development activities may be conducted jointly with others. These consolidated financial statements reflect only the Company’s proportionate interest in such activities.

(n) Measurement uncertainty

The value assigned to ore stockpiles, in process inventories and finished metal inventories are based on estimated volumes and grades. These inventories are costed at average costs of mining, processing and production. Volume and grade estimates are made relying on assays and other sampling tests. Costing is based on standard costing principles. By their nature, such estimation methodologies are subject to measurement uncertainties and the effect on consolidated financial statements of changes in estimates in future periods could be significant.

The amounts recorded for amortisation and depletion, and accretion of mineral properties and equipment, the liability for asset retirement obligations and the amount recorded for future income taxes are based on estimates. The impairment test is based on estimates of proved reserves, production rates, mineral prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in estimates in future periods could be significant.

(o) Reclassification

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

### **3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Asset retirement obligations**

In 2004, the Company adopted the CICA recommendation for recording of asset retirement obligations. The Company has determined that there is no significant liability for asset retirement obligations as at 31 May 2003; and therefore, this change in accounting policy has no material impact in these consolidated financial statements for the comparative 2003 and 2002 periods. The asset retirement obligation of US\$ 1,362,542 at 31 May 2004 is based on the estimated cash flows required to settle any abandonment and site restoration obligations relating to the Company's mining properties at the end of their useful lives. Most of the payments to settle the obligations will occur on an ongoing basis over the lives of the related assets estimated to be for a period of up to 5 years with US\$ 150,000 of the accrued portion not being due until 2026. Undiscounted cash flows are estimated at US\$ 1,913,646. Cash flows have been discounted at 6% for the purposes of determining the asset retirement obligation and were recorded as a part of the acquisition (Note 4(a)).

#### **(b) Stock-based compensation**

In September 2003, the CICA issued an amendment to section 3870 "Stock based compensation and other stock based payments". The amended section is effective for fiscal years beginning on or after 1 January 2004. The amendment requires that companies measure all stock based payments using the fair value method of accounting and recognise the compensation expense in their financial statements. The Company implemented this amended standard in 2004 in accordance with the early adoption provisions of the standard. Per the transitional provisions, early adoption requires that compensation expense be calculated and recorded in the statement of income for options issued on or after 1 June 2003. The Company recognised US\$ 820,700 as compensation expense for options issued during the year ended 31 May 2004.

#### **(c) Hedging**

The CICA has issued a new accounting guideline on Hedging Relationships (AcG 13), which is effective for 2004. This guideline, in addition to supplementing and interpreting existing hedging requirements under Canadian GAAP, establishes certain conditions required before hedge accounting may be applied. As there were no contracts entered into in the period and no outstanding contracts from prior year, this accounting guideline has not impacted the Company's accounting for its commodity price derivative contracts.

### **4. BUSINESS COMBINATIONS**

#### **(a) Minera San Gregoria S.A.**

The Company effected the purchase of all the shares of Minera San Gregorio S.A., Brimol S.A., Bolir S.A., Montemura S.A., Dalvan S.A. and 98% of the shares in Glendora S.A., hereafter referred to as "MSG", on the 24 October 2003 (with an effective date of 1 October 2003) for cash consideration of US\$ 2,000,000 of which US\$ 1,000,000 was paid 6 months from the date of close in April 2004, and US\$ 1,000,000 is due in October 2004. To secure the purchase price, the Company issued a pledge agreement and a convertible debenture. The convertible debenture is in the amount of US\$ 2,000,000 and is convertible into common shares of the Company in the event that the Company defaults in making the US\$ 2,000,000 cash payments within the specified dates. As the Company is not in default of its payment, the conversion feature has not been triggered. No value has been attributed to the conversion feature of the debenture due to the contingent nature of the conversion feature. The convertible debenture is convertible at one share equal to the weighted average trading price for the 5 days prior to the date of conversion. The Company paid a hedge liability of MSG in the amount of US\$ 2,759,321.

The acquisition of MSG at 1 October 2003 has been accounted for using the purchase method and the operations of MSG have been included in the consolidated financial statements from this date forward.

The purchase price allocation to the assets acquired and liabilities assumed based on their fair values is set out in the following table:

	<u>Book Value</u>	<u>Fair Value</u>	<u>Discrepancy</u>
	US\$	US\$	US\$
Cash	700,716	700,716	—
Other current assets	3,962,642	3,962,642	—
Current liabilities, including hedge liabilities	<u>(5,144,183)</u>	<u>(5,144,183)</u>	—
Working capital	(480,825)	(480,825)	—
Refundable deposits	125,378	125,378	—
Property, plant and equipment	5,704,652	3,806,620	1,898,032
Mine properties	4,432,459	—	4,432,459
Environmental and closure provisions	<u>(1,362,542)</u>	<u>(1,362,542)</u>	—
Net assets acquired	<u>8,419,122</u>	<u>2,088,631</u>	<u>6,330,491</u>
Purchase price			
—transaction costs	88,631	88,631	—
—cash and short term obligation	<u>2,000,000</u>	<u>2,000,000</u>	—
Cash for the cost of shares	2,088,631	2,088,631	—
—repayment of hedging liability	<u>2,759,321</u>	<u>2,759,321</u>	—
Total	<u>4,847,952</u>	<u>4,847,952</u>	—

Subsequent to 1 October 2003 it has come to the Company's attention that there is an unrecorded liability of US\$ 300,000. The purchase agreement specifies the level of liabilities and provides specific representation and warranties in this regard. The Company will reduce the amount due to the vendor by offsetting the US\$ 300,000 against the US\$ 1,000,000 due 24 October 2004.

The allocation is based on management's best estimate of what the fair values were at 1 October 2003. If events determine the allocation to be different, the difference will be treated as a purchase price adjustment in such subsequent period. Any resulting difference will be an adjustment between the amount allocated to property, plant, and equipment and the value attributed to the mineral reserves.

(b) Loryser S.A. ("Loryser")

On 8 December 2003 the Company finalised the acquisition of 100% of the issued capital of Loryser, and in return, the Company granted a 10% net profit interest to Loryser from gold obtained from Loryser's areas. The Company had previously managed Loryser as part of the Minas de Corrales Joint Venture. The Company's Arenal gold deposit is situated on the Loryser ground.

(c) Cinco Rios S.A. ("Cinco")

During 2002, the Company entered into an agreement to acquire Cinco (which holds certain diamond interests) in consideration for the issuance of 250,000 common shares of the Company at a deemed value of C\$ 0.40 (US\$ 0.26) per share. In conjunction with this acquisition, the Company also issued non-transferrable share options to acquire 250,000 common shares of the Company at an exercise price of C\$ 1 per share, and non-transferrable share options to acquire 500,000 common shares of the Company at an exercise price of C\$ 2 per share all expiring on 26 April 2004.

The acquisition has been accounted for by the purchase method based on the carrying values of the assets or liabilities of Cinco as at the effective date, of 5 April 2002, as follows:

Deferred development expenditures	US\$ <u>7,659</u>
Net identifiable asset acquired	
Consideration paid via issuance of common shares with a deemed value of US\$ 0.40 Note 9 (b))	<u>65,180</u>
Purchase price discrepancy allocated to mineral properties	<u>57,521</u>

(d) Nafypel S.A. ("Nafypel")

During 2002, the Company entered into an agreement to acquire certain properties in the Lascano area in exchange for 250,000 common shares of the Company at a deemed value of C\$ 0.40 (US\$ 0.26) per share.

These properties were purchased in the name of a wholly owned subsidiary, Nafypel. In conjunction with this acquisition, the Company also issued non-transferrable share options to acquire 250,000 common shares of the Company at an exercise price of C\$ 1 per share, and non-transferrable share options to acquire 500,000 common shares of the company at an exercise price of C\$ 2 per share all expiring on 6 May 2004.

## 5. ACCOUNTS AND DEPOSITS RECEIVABLE

(a) Accounts receivable are comprised of:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
	US\$	US\$	US\$
Trade receivables	—	—	701,845
Other receivables <sup>(1)</sup>	—	—	700,679
Employee loan (note 10 (a))	80,136	39,497	39,497
	<u>80,136</u>	<u>39,497</u>	<u>1,442,021</u>

(1) Other receivables comprise of VAT and other export tax incentives

(b) Refundable deposits of US\$ 125,378 (2003—US\$ 34,574, 2002—US\$ 34,644) represent amounts held on deposit for future environmental liabilities.

## 6. INVENTORIES

	<u>2002</u>	<u>2003</u>	<u>2004</u>
	US\$	US\$	US\$
Finished metals	—	—	274,234
Ore in stockpiles	—	—	256,737
Gold in circuit	—	—	402,270
Materials and supplies	—	—	3,154,568
	<u>—</u>	<u>—</u>	<u>4,087,809</u>

## 7. PROPERTY, PLANT AND EQUIPMENT

	<u>Cost</u>	<u>2004 Accumulated Amortisation</u>	<u>Net book value</u>
	US\$	US\$	US\$
Land and lease rights	670,670	—	670,670
Plant and equipment	4,225,736	671,843	3,553,893
Mineral properties	809,665	—	809,665
	<u>5,706,071</u>	<u>671,843</u>	<u>5,034,228</u>

	<u>Cost</u>	<u>2003 Accumulated Amortisation</u>	<u>Net book value</u>
	US\$	US\$	US\$
Equipment	70,007	24,657	45,350

	<u>Cost</u>	<u>2002 (restated Note 2 (n)) Accumulated Amortisation</u>	<u>Net book Value</u>
	US\$	US\$	US\$
Equipment	49,696	24,303	25,393

The Company applied an impairment test to capitalised costs at 31 May 2004 to determine whether such costs may be recovered in future. Capitalised costs were compared to estimated future cash flows from

production of proven reserves plus the cost (net of impairment) of unproved properties. No impairment loss was determined as a result of the impairment test.

The plant is located on leased land. The lease expires in 2026. No further payments are due on the lease. Included in plant and equipment as at 31 May 2004 is US\$ 298,000 of spare parts that are currently not being amortised.

Included in mineral properties is US\$ 809,665 of mine development costs incurred in the current period (post-acquisition—Note 4 (a)) that have not yet been amortised as these are pre-stripping costs and production has not yet been commenced.

## 8. DEFERRED EXPLORATION AND DEVELOPMENT COSTS

	<u>2002</u>	<u>2003</u>	<u>2004</u>
	US\$	US\$	US\$
Acquisition costs and option payments	1,536,944	1,536,944	1,536,944
Exploration, development and other property costs	3,212,847	3,949,595	4,990,339
Capitalised indirect overheads, net of exchange gains	<u>1,758,521</u>	<u>2,523,471</u>	<u>3,138,148</u>
	<u>6,508,312</u>	<u>8,010,010</u>	<u>9,665,431</u>

(a) The Company has the right to purchase shares of a Uruguayan company, Davinco S.A (Presidente Terra project). pursuant to an agreement dated 14 May 1997. The terms of this purchase are as follows:

i) 80% of DAVINCO SA issued shares for the amount of US\$ 750,000, payable in installments. US\$ 475,000 has been paid up to 30 November 2001. The balance of installments is due as follows:

<u>Installment</u>	<u>Due date</u>
US\$ 275,000	Within 5 days after the issue of a feasibility study on mineral properties held by DAVINCO SA.

ii) 20% of DAVINCO SA total shares, once the 80% has been acquired and provided a decision has been made to continue mineral exploration, at a variable price depending on the productive potential.

At 31 May 2004, no projects were abandoned in the current period.

(b) Included in 2004 deferred exploration and development costs of US\$ 9,665,431 is US\$ 1,827,193 (2003—US\$ 1,624,000, 2002—US\$ 1,140,000) paid as fees, of which US\$ 203,193 (2003—US\$ 484,000, 2002—US\$ 307,000) was incurred in 2004. These fees represent geological consulting, administrative services and other salary costs incurred by the Company. The outlays made by the Company include payments for services rendered by certain directors and employees for technical assistance and geological services rendered with respect to the Company's exploration and development activities in Uruguay.

In 2002, the C. Garcia Valentines project was abandoned and all related expenditures amounting to C\$ 332,600 were written off. Other projects that were abandoned in earlier years were: Maria Albina, Mina Pena, Mansano Lloron, Tres Equinas, and Oriental with related expenditures of C\$ 57,735 written off. Deferred administration costs, related to the above projects, of approximately C\$ 105,000 were written off as a result.

(c) The Uruguay Mining legislation requires all mining titles to be supported by guarantees for any environmental rehabilitation requirements resulting from exploration or mining activities. These guarantees are required to be posted by non-title holders. As a result, certain of the Company's employees, officers and directors have provided personal assets as guarantees. The Company intends to compensate these individuals in the event that the guarantee is called. The Company has also agreed to pay a guarantee fee to the individuals at rates advantageous to the Company. This fee is based on the amount of the guarantee and is negotiated on a case-by-case basis. The total guarantees provided at 31 May 2004 were approximately US\$ 823,973 (2003—US\$ 479,850, 2002—US\$ 388,000). These relate to potential site restoration responsibilities associated with exploration activities. In addition, as a consequence of the acquisition of the San Gregorio mine, the Company has assumed full responsibility for the rehabilitation of the mining site. This obligation is supported by a rehabilitation guarantee of US\$ 1,500,000, which guarantee is in turn supported by the sum of US\$ 1,500,000 held in escrow in a Canadian Bank. The Company's current site restoration liability in respect of its exploration activities is not material.

## 9. EQUITY INSTRUMENTS

### (a) Authorised

Unlimited number of Common Shares of no par value

### (b) Issued

Common shares	31 May 2002		31 May 2003		31 May 2004	
	Number	Amount	Number	Amount	Number	Amount
		US\$		US\$		US\$
Issued and outstanding, beginning of year	24,747,047	8,556,874	33,513,047	10,528,472	36,297,080	12,278,459
Issued for stock options exercised	—	—	784,033	254,480	150,000	44,710
Issued for cash	8,062,500	1,839,298	2,000,000	1,495,507	2,400,000	4,628,582
Issued for exercise of warrants for cash	—	—	—	—	4,018,333	4,242,012
Issued for the acquisition of Cinco (Note 4 (c))	250,000	65,180	—	—	—	—
Issued for the acquisition of certain properties (Note 4 (d))	250,000	65,180	—	—	—	—
Issued in exchange for the settlement of interest obligation upon extension of an existing option agreement	3,500	1,940	—	—	—	—
Issued for services rendered	200,000	—	—	—	—	—
Issued and outstanding	33,513,047	10,528,472	36,297,080	12,278,459	42,865,413	21,193,763
Less: cumulative share issue costs <sup>(1)</sup>	—	(828,302)	—	(874,568)	—	(924,643)
Balance, end of year	<u>33,513,047</u>	<u>9,700,170</u>	<u>36,297,080</u>	<u>11,403,891</u>	<u>42,865,413</u>	<u>20,269,120</u>
Weighted average number of shares	<u>25,845,594</u>		<u>35,637,052</u>		<u>39,590,211</u>	

Warrants	31 May 2002		31 May 2003		31 May 2004	
	Number	Amount	Number	Amount	Number	Amount
		US\$		US\$		US\$
Issued and outstanding, beginning of year	1,828,800	—	2,450,000	—	4,008,333	140,000
Issued for private placement	2,450,000	—	1,558,333	140,000	2,400,000	500,000
Issued as a commission for private placement	—	—	—	—	240,000	50,075
Exercised	—	—	—	—	(4,018,333)	(142,080)
Expired	(1,828,800)	—	—	—	—	—
Issued and outstanding, end of year	<u>2,450,000</u>	<u>—</u>	<u>4,008,333</u>	<u>140,000</u>	<u>2,630,000</u>	<u>547,995</u>
<b>Total equity instruments</b>		<u>9,700,170</u>		<u>11,543,891</u>		<u>20,817,115</u>

(1) These costs have been recorded gross of any related tax effect, as the ultimate utilization of any related tax benefit is currently uncertain.

### (c) Private placements

During October 2003, the Company completed a private placement of 2,400,000 units at a price of US\$ 2.14 (C\$ 2.85) per unit for gross proceeds of US\$ 5,128,582 (C\$ 6,840,000). Each unit is comprised of one common share and one warrant, with each whole warrant entitling the holder to acquire one additional common share upon the payment of US\$ 2.78 (C\$ 3.75) per share on or before 18 months from the date of issuance. This private placement was partially non arms' length as a non executive director of the Company subscribed for 40,000 units. The acting agent also received a commission of 240,000 share purchase warrants exercisable at US\$ 2.78 (C\$ 3.75) per share expiring 18 months from the closing date.

The fair value of all warrants issued in 2004 were estimated using the Black Scholes option pricing model with the following assumptions: Dividend yield (Nil), Expected volatility (0.35), risk-free interest rate (5.0%), and weighted average life of 1.5 years. As such, a value of US\$ 550,075 was attributed to these warrants of which US\$ 50,075 was attributed to the 240,000 warrants for commission. As a result, US\$ 4,628,582 of the US\$ 5,128,582 value has been attributed to the common shares issued and US\$ 500,000 to the 2,400,000 warrants attached to these common shares.

During 2003, the Company completed a private placement of 2,000,000 units at a price of US\$ 0.81 (C\$ 1.25) per unit for gross proceeds of US\$ 1,615,507 (C\$ 2,500,000). Each unit is comprised of one common share and two-thirds of one warrant, with each whole warrant entitling the holder to acquire one additional common share upon the payment of US\$ 0.97 (C\$ 1.50) per share on or before 18 months from the date of issuance. This private placement was partially non-arms length as a non-executive director of the Company subscribed for 70,000 units. The acting agent also received a commission of 225,000 share purchase warrants exercisable at US\$ 0.97 (C\$ 1.50) per share expiring 18 months after the closing date.

The fair value of all the warrants issued in 2003 were estimated using the Black Scholes option pricing model with the following assumptions: Dividend yield (Nil), Expected volatility (0.38), risk-free interest rate (5.0%), and weighted average life of 1.5 years. As such, a value of US\$ 140,000 was attributed to these warrants of which US\$ 20,000 was attributed to the 225,000 warrants for commission. As a result, US\$ 1,495,507 of the US\$ 1,615,507 value has been attributed to the common shares issued and US\$ 120,000 to the 1,333,333 warrants attached to these common shares.

Commencing 1 June 2002 the Company adopted the new recommendations of the CICA Handbook section 3870 with respect to other stock-based payments. The section requires that all stock based compensation issued to non-employees be recorded at fair value. Prior to 1 June 2002 no value was assigned to stock options or warrants issued in exchange for services.

During 2002, the Company completed a private placement of 8,062,500 common shares at US\$ 0.228 (C\$ 0.35) per common share for gross proceeds of US\$ 1,839,298. The acting agent received a commission of C\$ 135,244 and 950,000 share purchase warrants exercisable at C\$ 0.50 per share expiring 2 years after the closing date. During 2002, additional costs of C\$ 10,000 were allocated to share issue costs.

(d) Options and warrants

At 31 May 2004 the Company had 2,630,000 (2003—4,008,333, 2002—2,450,000) options and warrants outstanding. During 2004, the Company issued 2,630,000 (2003—1,558,333, 2002—950,000) warrants pursuant to the private placement (Note 9(b)). The outstanding warrants and options are exercisable as follows:

<u>Number of warrants</u>	<u>Warrant price</u>	<u>Expiry date</u>
2,630,000	US\$ 2.78 (C\$ 3.75)	21 April 2005

The Company has a director and employee stock option plan under which it may grant options to its directors and employees. Effective June 1, 2003 the Company adopted the recommendations of the CICA Handbook with respect to stock-based compensation and commenced to expense stock options granted from 1 June 2003 using the fair value method. Previously, no value was assigned to stock options or warrants issued in exchange for employee, directors and officers services.

The employee option Plan is for officers, directors and employees of the Company. Options under the plan are typically granted in such numbers as reflects the responsibility of the particular optionee and his or her contribution to the business and activities of the Company. Options granted under the plan have a term of up to 5 years. Except in specified circumstances, options are not assignable and terminate on the optionee ceasing to be employed by or associated with the Company. The terms of the plan further provide that the price at which shares may be issued under the Plan cannot be less than the market price (net of permissible discounts) of the shares when the relevant options were granted.

The following table summarizes information regarding the Company's outstanding options as at 31 May 2004:

	<u>Number of shares</u>	<u>Option price per share range</u>	<u>Weighted average exercise price</u>
		C\$	C\$
Options—granted	774,033	0.30–2.00	0.66
Options—cancelled	1,155,000	0.40	0.40
	<u>(160,000)</u>	0.75–2.00	1.31
Options outstanding, 31 May 2002	1,769,033	0.30–0.50	0.43
Options—granted	450,000	0.75–1.00	0.83
Options—exercised	<u>(784,033)</u>	0.40–0.50	0.43
Options outstanding, 31 May 2003	1,435,000	0.30–1.00	0.53
Options—granted	1,420,000	1.50–4.00	2.03
Options—exercised	<u>(150,000)</u>	0.40	0.40
Options outstanding, 31 May 2004	<u>2,705,000</u>	0.30–4.00	0.75

The following table summarizes information about the stock options outstanding to the officers, directors and staff at 31 May 2004:

<u>Options outstanding</u>	<u>Option price</u>	<u>Weighted average exercise price</u>	<u>Remaining contractual life</u>
	C\$	C\$	
50,000	0.30	0.30	0.2 years
785,000	0.40	0.40	2.7 years
150,000	1.00	1.00	3.3 years
300,000	0.75	0.75	3.8 years
1,120,000	1.50	1.50	4.3 years
<u>300,000</u>	4.00	4.00	4.9 years
<u>2,705,000</u>			

The following table summarizes information about the stock options outstanding at 31 May 2003:

<u>Options outstanding</u>	<u>Option price</u>	<u>Weighted average exercise price</u>	<u>Remaining contractual life</u>
	C\$	C\$	
50,000	0.30	0.30	1.2 years
935,000	0.40	0.40	3.7 years
300,000	0.75	0.75	4.8 years
<u>150,000</u>	1.00	1.00	4.8 years
<u>1,435,000</u>			

All of the options detailed above are fully exercisable.

Had stock based compensation for options granted since 1 June 2002 under the Plan been determined on the basis of fair value at the date of grant in accordance with the fair value method of accounting for stock-based compensation, the Company's net loss of US\$ 279,779 for the year ended 31 May 2003 would increase by US\$ 35,000 to US\$ 314,799. The net loss per share would have increased from US\$ 0.008 to US\$ 0.009.

For the purposes of stock based compensation, the fair value of each option was determined on the date of granting using the Black-Scholes option pricing model with the following assumptions: Dividend yield (Nil) (2003—Nil), expected volatility (range of 0.40 to 0.50) (2003—0.38), risk-free interest rate (3.0%) (2003—5%), and weighted average life of 4.0 years (2003—4.0 years).

The following table summarizes information about the stock options outstanding at 31 May 2002:

<u>Options outstanding</u>	<u>Option price</u>	<u>Weighted average exercise price</u>	<u>Remaining contractual life</u>
	C\$	C\$	
50,000	0.30	0.30	2.2 years
1,155,000	0.40	0.40	4.7 years
<u>564,033</u>	0.50	0.50	0.8 years
<u>1,769,033</u>			

All of the options detailed above are fully exercisable.

(e) Subscriptions receivable

During 2003, the Company issued loans totaling US\$ 3,661 to enable Uruguayan employees who are not officers of the Company to exercise an aggregate of 10,000 options at C\$ 0.50 per share. The loans are non-interest bearing, unsecured and have a repayment date of 16 February 2004.

## 10. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions:

- (a) Included in accounts receivable is US\$ 39,497 (2003—US\$ 39,497, 2002—US\$ 98,805 of which US\$ 18,669 is non-current) in employee loans (Note 5). The employee loans have been used for the benefit of the Company to provide certain guarantees as required by the Uruguayan Government in relation to prospecting and exploration activities. The entire balance of US\$ 39,497 at 31 May 2004 was repaid subsequent to year end.
- (b) During 2004, the Company has paid approximately US\$ 30,472 (2003—US\$ 57,000, 2002—US\$ nil) in directors fees.
- (c) In 2004, a non-executive director of the Company subscribed for 40,000 units (2003—70,000, 2002—nil) pursuant to the private placements detailed in Note 9(b).
- (d) In 2002, the Company issued 200,000 common shares in lieu of fees to a company owned by an officer and director of the Company. In accordance with the Company's accounting policy in 2002, no value has been assigned to these shares for accounting purposes.
- (e) In 2002, an officer and director of the Company has subscribed for 160,000 common shares pursuant to the private placement.

These transactions are in the normal course of operations and are measured at the exchange amount, the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

## 11. SEGMENTED INFORMATION

The Company has three reportable segments: Gold, exploration and corporate. The corporate segment is responsible for corporate financing and other business development activities for the Company. The Gold segment operates the San Gregorio gold mine and the exploration segment is devoted to the acquisition

and exploration of mineral properties. The gold and exploration segments operate solely in Uruguay. Precious metals are refined and sold in the United Kingdom.

	2004			
	Gold	Exploration	Corporate	Total
	US\$	US\$	US\$	US\$
Sales	13,988,930	—	—	13,988,930
Net income (loss)	2,250,284	(1,485)	(1,695,629)	553,170
Property, plant and equipment	3,803,468	1,221,399	9,361	5,034,228
Deferred exploration and development	—	9,665,431	—	9,665,431

	2003			
	Gold	Exploration	Corporate	Total
	US\$	US\$	US\$	US\$
Sales	—	—	—	—
Net income (loss)	—	(64,233)	(215,566)	(279,799)
Property, plant and equipment	—	44,542	808	45,350
Deferred exploration and development	—	8,010,010	—	8,010,010

	2002			
	Gold	Exploration	Corporate	Total
	US\$	US\$	US\$	US\$
Sales	—	2,881	—	2,881
Net income (loss)	—	(331,854)	(168,975)	(500,829)
Property, plant and equipment	—	24,219	1,174	25,393
Deferred exploration and development	—	6,508,312	—	6,508,312

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

## 12. INCOME TAXES

- (a) The reconciliation between taxes was calculated by applying the statutory tax rate to pre tax income and income tax expense.

	2002	2003	2004
	US\$	US\$	US\$
(Loss)/profit before taxes	(500,829)	(279,799)	553,170
Income tax rate	35%	35%	35%
Expected income taxes	(175,290)	(97,930)	193,610
Tax effect of:			
Amortisation, credit on consolidation	—	—	(1,692,651)
Inflation adjustments for losses and net assets	—	—	(847,380)
Other differences	—	—	120,773
Tax losses not recognised	175,290	97,930	2,419,258
	—	—	—

Note—This assumes no permanent differences for Canadian and Barbados tax.

(b) Un-recognised tax benefits

As at 31 May 2004 the Company has non capital loss carry forwards that may be available for tax purposes. The losses are in the following jurisdictions and expire as follows:

	<u>Canada</u>	<u>Uruguay</u>	<u>Barbados</u>
Year to 31 May 2005	115,000	9,895,752	—
Year to 31 May 2006	704,000	2,371,903	—
Year to 31 May 2007	474,000	3,914,588	117,000
Year to 31 May 2008	455,000	—	—
Year to 31 May 2009	448,000	—	—
Year to 31 May 2010	—	—	—
Year to 31 May 2011	—	—	131,000
Year to 31 May 2012	—	—	1,025,000
Year to 31 May 2013	—	—	905,000
Year to 31 May 2014	122,000	—	—
	<u>2,318,000</u>	<u>16,182,243</u>	<u>2,178,000</u>

In Uruguay the Company has deferred costs which result in available tax pools of US\$ 5,653,959 (2003—US\$ 2,500,000, 2002—US\$ 1,395,000) in acquisition, exploration and development expenditures, which may be deductible against future production income from the related properties. The deductibility of these expenditures will be based on the life of the reserves brought into production. In addition, the Company can seek tax relief for certain projects under existing Uruguayan legislation. Such relief may be granted on a project-by-project basis. It is the Company's intention to make application for such relief for projects as they near production.

### 13. COMMITMENTS

In addition, to the commitments detailed in Note 8 on exploration of mineral properties, the Company has the following commitments:

- (a) The Company is committed to monthly rental payments on their premises of US\$ 124,900 in 2005, US\$ 95,700 in 2006 and US\$ 56,000 in 2007.
- (b) Minas De Corrales Project—the Company finalized the acquisition of 100% of the issued capital of Loryser, and in return granted a 10% net profits interest from gold obtained from Loryser's areas. The Company had previously managed Loryser as part of the Minas de Corrales Joint Venture. The Company's Arenal gold deposit is situated on the Loryser ground.
- (c) The Company is committed to pay a director and officer of the Company US\$ 500 per month for rental of certain premises and a fee for premises pledged as guarantees required for granting of certain mining titles.
- (d) The Texas and Mal Abrigo interests acquired by the Company are subject to a 2% net profits interest and a 1% net smelter return respectively, payable to the vendor.

### 14. FINANCIAL INSTRUMENTS

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to currency risk, credit risk, and title risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Currency risk

The carrying amount of cash, accounts receivable and current liabilities approximate their fair value due to the short-term maturities of these instruments.

The Company's cash balances are held principally in US dollars in a Canadian bank, while its expenses are incurred in Uruguay pesos as well as US dollars and other currencies. The Company currently reports its

results in United States dollars. There would be an adverse impact on the reported results if the following situations arise:

- (i) The Uruguay inflationary impact on the peso expenses increases at more than the depreciation of the Uruguay peso against the United States dollar. This would result in an increase of the peso-based expenses.
- (ii) The United States dollar depreciates against the Uruguay peso. This would reduce the available cash resources and increase the related expense.

A significant portion of the Company's operations are located in Uruguay, and are subject to fluctuations in exchange rates. The Company manages its currency rate risk by denominating its contracts and commitments in US dollars.

(b) Credit risk

The Company enters into financial agreements (financial instruments) with major international banks and other international financial institutions in order to manage underlying revenue and future cash flow exposures arising from commodity prices. Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash, accounts receivable and securities.

(c) Title risk

Title to mineral properties and mining rights involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. Although the Company has investigated title to all of its mineral properties for which it holds concessions or other mineral leases or licenses, the Company cannot give an assurance that title to such properties will not be challenged or impugned and cannot be certain that it will have valid title to its mining properties. The Company relies on title opinions by legal counsel who base such opinions on the laws of the country in which the Company operates.

## 15. STATEMENT OF CASH FLOWS

(a) The net change in non-cash working capital items is as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
	US\$		
Accounts receivable	4,181	7,788	(666,414)
Prepaid expenses	59,216	(12,587)	(402,356)
Inventories	—	—	(1,079,021)
Accounts payable and accrued liabilities	—	59,308	823,053
	<u>63,397</u>	<u>54,509</u>	<u>(1,324,738)</u>

(b) Included in cash and cash equivalents is US\$ 425,501 of negotiable certificates issued by the Uruguayan Government that can be used to pay taxes or be converted to cash. The certificates are denominated in Uruguayan pesos and hence are subject to currency risk (Note 14(a)).

## 16. SUBSEQUENT EVENTS

- (a) Subsequent to year end, on 8 August 2004, the Company entered into a secured US\$ 2,000,000 interim working capital facility with Macquarie Bank Limited. In conjunction with the interim loan facility the Company entered into a contract to forward sell 10,000 ounces of gold on a spot deferred basis at US\$ 388.50 per ounce. Subsequently, on 8 December 2004 the Company entered into a secured financing facility of US\$ 6,500,000 to replace the interim working capital facility. This facility provides US\$ 1,500,000 for environmental bonds and US\$ 5,000,000 for working capital needs. The facility will bear interest at a rate of Libor plus 2% and is secured by a general fixed and floating charge over all of the Group's assets. The facility is subject to the completion of conditions subsequent including the registration of securities and the placing of political risk insurance.
- (b) Subsequent to year end, on 5 August 2004, Loryser S.A. signed a sale and purchase agreement for the purchase of US\$ 6,349,247 in mine equipment with Komatsu Latin America Corporation. The equipment is being purchased on deferred payment terms with an initial payment of 25%, twelve

monthly installments equal to 15% and a final balloon payment of 60% 12 months from the date that equipment is assembled and ready to work. The Company will also be responsible for all assembly and mobilisation costs estimated at US\$ 198,000. Interest on all balances outstanding accrues at the 90 day libor rates plus 4% commencing the date that the machinery is assembled and ready for use.

- (c) Subsequent to year end, in September 2004, Loryser S.A. received the final environmental approval to mine the Arenal deposit in the Minas de Corrales Project resulting in the commercialisation of the Minas de Corrales area.
- (d) Subsequent to year end, the Company had 8,000 warrants exercised for US\$ 29,990 and 386,500 options exercised for US\$ 228,224.
- (e) Subsequent to year end it came to the Company's attention that there was an unrecorded liability, relating to the period prior to the acquisition of Minera San Gregorio S.A. by the Company, of between US\$ 300,000 and US\$ 500,000. The purchase agreement limits the level of liabilities and provides specific representations and warranties in this regard. The Company served a reduction notice to reduce the amount due to the vendor by offsetting undisclosed liabilities against the US\$ 1 million due to be paid on October 24, 2004. The Company has paid US\$ 650,000 and on December 3, 2004 signed a mutual release with the vendor releasing the Company from future obligations. Should the undisclosed liabilities ultimately not be paid, amounts of up to US\$ 350,000 would be paid by the Company to the vendor.
- (f) Subsequent to period end, the Company restructured its gold hedge positions. 10,000 ounces of spot deferred gold contracts at a strike price of US\$ 388.50 were replaced. The Company purchased 50,000 put options at a strike price of US\$ 400 per ounce and 50,000 call options at a strike price of US\$ 436 per ounce. The put and call options are equally matched with deliveries of 2,500 ounces per month commencing November 2004.

#### **17. DIFFERENCE BETWEEN CANADIAN GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Group prepares its financial statements in accordance with Canadian GAAP, which conforms to IFRS in all respects that are material to the accounts presented by the Group. No significant reconciling items between amounts reported under Canadian GAAP and IFRS were identified.

#### **18. AUDITORS**

This accountant's report has been based on the accounts audited by BDO Dunwoody LLP, 1900, 801-6 Avenue S.W., Calgary, Alberta, Canada T2P 3W2.

Yours faithfully

Deloitte & Touche LLP  
Chartered Accountants



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9 December 2004

Dear Sirs

**Minera San Gregorio S.A. and related undertakings (“the Combined Group”)**

We report on the financial information of the Combined Group set out below. This financial information has been prepared for inclusion in the admission document dated 9 December 2004 (the “Admission Document”) relating to the admission to AIM of the common shares of the Company.

**Basis of preparation**

The financial information set out in this report, which has been prepared on the basis set out below and in accordance with applicable Uruguayan generally accepted accounting principles (“Uruguayan GAAP”), is based on the audited combined financial statements of the Combined Group for the two years ended 31 December 2002 and the nine months ended 30 September 2003 after making such adjustments as we considered necessary. A summary of differences between Uruguayan GAAP and International Financial Reporting Standards (“IFRS”) is included in Note 14 to this accountants’ report.

**Responsibility**

Such financial statements are the responsibility of the directors of Minera San Gregorio S.A. who approved them.

The Directors of the Company are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error. However, the evidence available to us in order to determine any retrospective impairment adjustments to fixed assets and deferred costs that may have been required had IFRS been adopted in the years ended 31 December 2001 and 2002 was not sufficiently reliable for the purpose of the summary of differences between Uruguayan GAAP and International Financial IFRS included in Note 14 to this accountants' report.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States or other jurisdictions outside the UK and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

Except for any adjustments that may have been necessary to note 14 had we been able to obtain sufficient reliable information in order to determine appropriate adjustments at 31 December 2002 and 31 December 2003 with respect to impairment of assets under IFRS, in our opinion, the financial information set out below gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Combined Group as at the dates stated and of its losses, for the years/periods then ended.

Solely in respect of the limitation in scope on our work relating to impairment adjustments under IFRS:

- we have not obtained all the information necessary to reliably calculate the adjustments that may have been required under IFRS for the impairment of fixed assets and deferred costs in the years ended 31 December 2001 and 31 December 2002.

We consent to the inclusion in the Admission Document of this report and accept responsibility for this report for the purposes of paragraph 45 (2)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

**COMBINED BALANCE SHEET**  
**AS AT 31 DECEMBER 2001 AND 2002 AND 30 SEPTEMBER 2003**

	Note	31 December 2001 US\$	31 December 2002 US\$	30 September 2003 US\$
<b>Assets</b>				
Cash and short term deposits		1,864,284	596,284	700,716
Accounts and interest receivable		634,302	688,408	524,659
Intercompany accounts	5	—	1,420,883	—
Inventories	4	5,069,907	4,762,618	5,491,251
Mine supplies and prepaid expense		553,373	134,936	218,456
		<u>8,121,866</u>	<u>7,603,129</u>	<u>6,935,082</u>
Property, plant and equipment	2	15,393,329	9,095,813	5,262,540
Deferred costs	3	10,876,294	6,699,567	3,868,824
Long term accounts receivable		189,736	129,874	126,116
		<u>26,459,359</u>	<u>15,925,254</u>	<u>9,257,480</u>
Total assets		<u><u>34,581,225</u></u>	<u><u>23,528,383</u></u>	<u><u>16,192,562</u></u>
<b>Liabilities</b>				
Accounts payable and liabilities		4,396,190	3,752,815	2,908,629
Intercompany accounts	5	58,138,226	—	2,038,858
Current portion of long term debt	6	1,174,118	2,289,313	210,039
		<u>63,708,534</u>	<u>6,042,128</u>	<u>5,175,526</u>
Long term debt	6	2,474,352	210,039	—
Reclamation provision	7	784,876	728,300	916,562
		<u>3,259,228</u>	<u>938,339</u>	<u>916,562</u>
Total liabilities		<u><u>66,967,762</u></u>	<u><u>6,980,467</u></u>	<u><u>6,074,088</u></u>
<b>Shareholders' equity</b>				
Share capital—other	8	27,055	27,204,392	27,204,392
Retained income beginning of year		(22,465,817)	(735,990)	(10,656,476)
Net income		(9,947,775)	(9,920,486)	(6,429,442)
Total shareholders' equity		<u>(32,386,537)</u>	<u>16,547,916</u>	<u>10,118,474</u>
Total liabilities and shareholders' equity		<u><u>34,581,225</u></u>	<u><u>23,528,383</u></u>	<u><u>16,192,562</u></u>

**COMBINED INCOME STATEMENT**  
**FOR YEARS ENDED 31 DECEMBER 2001 AND 2002 AND THE NINE MONTHS ENDED**  
**30 SEPTEMBER 2003**

	Note	31 December 2001 US\$	31 December 2002 US\$	30 September 2003 US\$
<b>Income</b>				
Revenue—gold		20,213,051	20,447,491	12,354,981
Treatment charges		(332,275)	(349,544)	(225,020)
Interest and other		240,449	191,875	7,435
Foreign exchange gain (loss)		(163,585)	(286,279)	(47,425)
		<u>19,957,640</u>	<u>20,003,545</u>	<u>12,089,971</u>
<b>Expenses</b>				
Mine operations		(17,266,487)	(15,413,061)	(10,198,963)
Administration		(903,477)	(838,520)	(374,863)
Exploration and property evaluation		(474,645)	(555,197)	(561,116)
		<u>(18,644,609)</u>	<u>(16,806,778)</u>	<u>(11,134,942)</u>
<b>Earnings before depreciation and amortisation</b>		1,315,031	3,196,767	955,029
Depreciation and amortisation	2	(6,908,735)	(6,492,894)	(4,227,353)
Amortisation of deferred charges	3	(4,438,734)	(5,631,491)	(2,634,249)
Royalties expense		(178,349)	(202,631)	(138,348)
Reclamation expense	7	(208,023)	(263,722)	(192,144)
Finance interest expense		(729,894)	(142,205)	(109,764)
Long term interest expense	12	—	(384,309)	(82,613)
Gain on loan repayment	6	1,213,847	—	—
Other		(12,918)	—	—
		<u>(11,262,806)</u>	<u>(13,117,253)</u>	<u>(7,384,471)</u>
<b>Net loss</b>		<u>(9,947,775)</u>	<u>(9,920,486)</u>	<u>(6,429,442)</u>

**COMBINED STATEMENT OF STOCKHOLDER' EQUITY**  
**FOR YEARS ENDED 31 DECEMBER 2001 AND 2002 AND THE NINE MONTHS ENDED**  
**30 SEPTEMBER 2003**

**SHAREHOLDERS' EQUITY**

	US\$
31 December 2000	(22,438,762)
Net loss for the year	<u>(9,947,775)</u>
31 December 2001	(32,386,537)
Capitalisation (note 8)	58,854,939
Net loss for the year	<u>(9,920,486)</u>
31 December 2002	16,547,916
Net loss for the period	<u>(6,429,442)</u>
30 September 2003	<u><u>10,118,474</u></u>

**COMBINED CASH FLOW STATEMENT**  
**FOR YEARS ENDED 31 DECEMBER 2001 AND 2002 AND THE NINE MONTHS ENDED**  
**30 SEPTEMBER 2003**

	<u>31 December 2001</u>	<u>31 December 2002</u>	<u>30 September 2003</u>
	US\$	US\$	US\$
<b>Cash flow from operating activities</b>			
Net income	(9,947,775)	(9,920,486)	(6,429,442)
Adjustments to reconcile income to net cash used in operating activities:			
Depreciation of property, plant and equipment	6,908,735	6,492,894	4,227,353
Amortisation of deferred costs	4,438,734	5,631,491	2,634,249
Deferred cost realised	—	—	228,633
Reclamation expense	208,023	263,722	192,144
Gain on loan restructure	(1,213,847)	—	—
Decrease/(increase) in accounts and interest receivables	493,886	(54,107)	163,750
Decrease/(increase) in inventories	2,107,527	307,289	(728,633)
Decrease/(increase) in mine supplies and prepaid expenses	(149,054)	418,437	(83,520)
Decrease/(increase) in intercompany accounts—Uruguayan	—	48,799	—
Decrease/(increase) in other long term receivables	(40,603)	59,868	3,758
Increase/(decrease) in accrued liabilities and taxes	(320,146)	(643,376)	(844,186)
Net cash provided (used) by operating activities	<u>2,486,480</u>	<u>2,604,531</u>	<u>(635,894)</u>
<b>Cash flow from investing activities</b>			
Additions to property, plant and equipment	(888,232)	(195,379)	(394,080)
Additions to deferred costs	(1,159,024)	(738,056)	(32,139)
Other investing activities (reclamation costs)	(413,678)	(320,298)	(3,883)
Net cash used by investing activities	<u>(2,460,964)</u>	<u>(1,253,733)</u>	<u>(430,102)</u>
<b>Cash flows from financing activities</b>			
Debt repayments	(8,846,014)	(1,149,117)	(2,289,313)
Due to parent company	9,107,012	(1,469,681)	3,459,741
Net cash provided/(used) by financing activities	<u>260,998</u>	<u>(2,618,798)</u>	<u>1,170,428</u>
Net increase/(decrease) in cash and cash equivalent	286,514	(1,268,000)	104,432
Cash and cash equivalent at beginning of the period	<u>1,577,770</u>	<u>1,864,284</u>	<u>596,284</u>
Cash and cash equivalent at end of the period	<u><u>1,864,284</u></u>	<u><u>596,284</u></u>	<u><u>700,716</u></u>

## INCORPORATION AND ACTIVITY

The dates of incorporation under Uruguayan law for each company are set out below:

<u>Name</u>	<u>Date of incorporation</u>	<u>Activity</u>
Minera San Gregorio S.A.	14 October 1982	Mining exploration and prospecting at San Gregorio mines
Glendora S.A.	24 August 1983	Exploration
Dalavan S.A.	17 October 1983	Exploration
Montemura S.A.	4 January 1993	Exploration
Bolir S.A.	30 October 1984	Exploration
Brimol S.A.	13 January 1984	Land owner

On 22 October 1998 Stel BVI Inc, a company incorporated in December 1990 under British Virgin Island's law and parent company of Minera San Gregorio S.A. was purchased by Crystallex International Capital Corporation. On the same day Crystallex International Capital Corporation acquired 100% of the shares in Dalvan S.A., Montemura S.A., Bolir S.A., Brimol S.A. and 95% of the shares in Glendora S.A.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies reflect industry practices and conform to Uruguayan generally accepted accounting principles. The following policies are considered to be significant.

#### **Basis of combination**

The combined financial statements include the accounts of Minera San Gregorio S.A., Brimol S.A., Bolir S.A., Montemura S.A., Dalvan S.A. and Glendora S.A. (together the "Combined Group"). All material intercompany transactions have been eliminated. Share capital and retained reserves are an aggregation of individual company balances.

#### **Inventories**

Inventories are stated at the lower of cost or net realisable value. The cost of inventory consumed or sold is determined primarily by average cost which excludes fixed assets depreciation and deferred charges amortisation.

Goods that have been shipped at the end of the year but for which a sales price has not been agreed and title has not passed are recorded as inventory.

#### **Property, plant and equipment**

Fixed assets are stated at their US dollar depreciated historical cost.

Costs of normal maintenance and repairs are expensed as incurred. Depreciation is charged on a straight-line basis over estimated useful asset lives at the following annual rates:

Laboratory equipment	10%
Vehicles	10%
Office furniture and other	10%

Process plant, mine equipment, tailings dam, infrastructure and power lines are depreciated using a units of production basis over the estimated life of the mine based on tonnes of ore processed from proven and probable reserves.

#### **Deferred costs**

The prospecting, exploration, administrative and general expenses incurred from the start of Minera San Gregorio S.A. activities until 31 January 1997, were capitalised as "Deferred costs".

Exploration costs are expensed as incurred. Acquisition costs of mine properties determined not to be economically feasible are expensed in the period that the determination is made.

Deferred charges are amortised using a units of production basis over the estimated life of the mine based on tonnes of ore processed from proven and probable reserves.

## Revenue recognition

Revenue from mining operations is recognised upon the shipment of gold to third party refineries, when the sales price has been fixed and title has passed to the customer.

## Foreign currency

Transactions are initially recorded in Uruguayan Pesos and are translated into United States Dollars using the exchange rate prevailing at the date of the transaction. At the balance sheet date, all assets and liabilities in Uruguayan Pesos are translated into United States Dollars at the year end exchange rate.

Exchange gains and losses arising on translation are recognised in the net loss for the year.

## Site restoration provision

Costs relating to ongoing site restoration are expensed as incurred. A provision for costs following the closure of a mine site is recognised based on a units of production basis over the estimated life of the mine based on tonnes of ore processed from proven and probable reserves. The provision is based on the estimated cost of complying with Uruguayan reclamation legislation.

## 2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarised as follows:

	31 December 2001 Accumulated			31 December 2002 Accumulated			30 September 2003 Accumulated		
	Cost	Depreciation	Net book value	Cost	Depreciation	Net book value	Cost	Depreciation	Net book value
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Buildings and others	1,602,342	1,124,427	477,915	1,602,342	1,345,800	256,542	1,602,342	1,484,021	118,321
Equipment and tools	284,502	200,173	84,330	284,502	239,235	45,268	284,502	263,625	20,878
Installations	789,221	555,029	234,192	1,101,360	668,119	433,241	1,101,748	901,281	200,467
Laboratory equipment	343,770	165,813	177,958	343,770	199,435	144,335	343,770	224,652	119,118
Land	870,608	—	870,608	870,608	—	870,608	870,608	—	870,608
Mine equipment	8,693,053	5,796,972	2,896,081	8,693,053	7,138,450	1,554,603	8,693,053	7,976,051	717,002
Office equipment	234,089	162,018	72,072	234,089	181,457	52,633	234,089	193,042	41,047
Power lines	3,244,807	2,275,776	969,031	3,244,807	2,724,636	520,171	3,244,807	3,004,898	239,909
Process plant	23,087,556	16,147,446	6,940,107	23,118,004	19,369,666	3,748,338	23,118,004	21,382,759	1,735,245
Tailings dam	7,265,654	5,093,354	2,172,300	7,325,074	6,097,935	1,227,139	7,718,765	6,725,181	993,584
Vehicles	487,061	205,790	281,271	497,896	254,960	242,936	497,896	291,535	206,361
General construction	217,464	—	217,464	—	—	—	—	—	—
	<u>47,120,127</u>	<u>31,726,798</u>	<u>15,393,329</u>	<u>47,315,506</u>	<u>38,219,692</u>	<u>9,095,813</u>	<u>47,709,585</u>	<u>42,447,046</u>	<u>5,262,540</u>

Fixed asset depreciation expense for the period ended 30 September 2003 amounted to US\$ 4,227,353, for the year ended 31 December 2002 amounted to US\$ 6,492,894 and for the year ended 31 December 2001 amounted to US\$ 6,908,735.

### 3. DEFERRED COSTS

	<u>2001</u>	<u>2002</u>	<u>2003</u>
	US\$	US\$	US\$
Exploration expenses	16,440,444	16,488,483	16,520,623
Pre-operating expenses	10,932,476	11,649,186	11,648,186
Construction of deferred charges	1,985,401	1,985,401	1,985,401
Deferred royalties	1,200,000	1,200,000	1,200,000
Deferred financial charges	1,743,997	1,743,997	1,743,997
Other deferred charges	1,155,973	1,845,988	1,617,355
Accumulated amortisation	<u>(22,581,997)</u>	<u>(28,213,488)</u>	<u>(30,847,737)</u>
	<u>10,876,294</u>	<u>6,699,567</u>	<u>3,868,824</u>

Deferred cost amortisation expense for the period ended 30 September 2003 was US\$ 2,634,249, (year ended 31 December 2002—US\$ 5,631,491, year ended 31 December 2001—US\$ 4,438,734).

### 4. INVENTORIES

Inventories are summarised as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
	US\$	US\$	US\$
Finished goods	315,438	408,466	1,190,351
Stockpile	631,045	89,866	99,633
Material in mill circuit	151,973	230,855	378,185
Supplies and consumables	1,396,352	1,031,492	1,308,750
Spare parts	2,222,468	2,856,252	2,370,146
Goods in transit	<u>352,631</u>	<u>145,687</u>	<u>144,186</u>
	<u>5,069,907</u>	<u>4,762,618</u>	<u>5,491,251</u>

### 5. RELATED PARTY TRANSACTIONS

Outstanding intercompany balances due to (due from) Crystallex International Capital Corporation and Stel BVI Inc are as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
	US\$	US\$	US\$
<b>Due to (due from) Crystallex International Capital Corporation</b>			
Minera San Gregorio S.A.	44,032,578	(1,420,883)	2,038,858
Brimol S.A.	215,173	—	—
Bolir S.A.	615,461	—	—
Montemura S.A.	234,241	—	—
Glendora S.A.	1,086,965	—	—
Dalvan S.A.	<u>342,171</u>	<u>—</u>	<u>—</u>
	46,526,589	(1,420,883)	2,038,858
<b>Due to Stel BVI Inc</b>			
Minera San Gregorio S.A.	<u>11,611,637</u>	<u>—</u>	<u>—</u>
<b>Total net intercompany balances</b>	<u>58,138,226</u>	<u>(1,420,883)</u>	<u>2,038,858</u>

Administration and exploration expenses for the period ended 30 September 2003 include Crystallex International Capital Corporation administration recharges of US\$ 390,000, (year ended 31 December 2002—US\$ 780,000, year ended 31 December 2001—US\$ 780,000).

Interest includes interest charged by Crystallex to Minera San Gregorio for the period ended 30 September 2003 of US\$ 37,027 (year ended 31 December 2002—US\$ 262,084, year ended 31 December 2001—US\$ nil).

On 1 January 2002 Crystallex gave up to Stel BVI Inc the total intercompany balance with Minera San Gregorio S.A. as at 31 December 2001.

On 25 May 2002 the inter company loans were capitalised through the issue of new shares (Note 8).

## 6. FINANCIAL LOANS

On 12 October 2001 a loan agreement was signed between Minera San Gregorio S.A. and Standard Bank London Limited for US\$ 6,283,470 (“the gold loan”).

The loan was repayable as follows:

<u>Principal payment date</u>	<u>Principal payment</u>
	US\$
15 July 2002	849,118
15 January 2003	981,203
15 July 2003	1,283,111
15 January 2004	1,585,019
15 July 2004	1,585,019
Total	<u>6,283,470</u>

On 19 November 2001, Crystallex International Capital Corporation repaid US\$ 2,960,000 on behalf of Minera San Gregorio S.A.. A gain of US\$ 1,213,847 was recorded as a result of the re-negotiation of previous gold loan arrangements which existed before 12 October 2001.

On 30 November 1998 a letter of agreement was signed between Standard Bank London Limited and Minera San Gregorio S.A. for a loan of US\$ 1,200,000.

The outstanding balance on loans was as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
	US\$	US\$	US\$
Current portion of US\$ loan	325,000	25,000	—
Current portion of gold loan	849,118	2,264,313	210,039
	1,174,118	2,289,313	210,039
Non-current portion of gold loan	2,474,352	210,039	—
	<u>3,648,470</u>	<u>2,499,352</u>	<u>210,039</u>

## 7. RECLAMATION PROVISIONS

As at 30 September 2003 and 31 December 2002, a guarantee of US\$ 1,500,000 was deposited with the Uruguayan National Director of Hydrography in relation to post closure site restoration costs. That guarantee consists of a letter of credit from Surinvest Bank, guaranteed by Standard Bank.

## 8. CAPITAL STOCK

On 25 March 2002 Stel BVI capitalised intercompany loans in Minera San Gregorio S.A. totalling Uruguayan Peso 821,144,519.

On 25 March 2002 Crystallex International Corporation made the following intercompany loan capitalisations:

	<u>Pesos</u>
Bolir	9,087,929
Brimol	3,177,668
Dalvan	5,053,175
Glendora	16,052,300
Montemura	3,697,144

The authorised capital of the companies was expressed in common bearer shares of 0.001 Uruguayan Pesos nominal value each

	<u>2001</u>	<u>2002</u>	<u>2003</u>
	Pesos	Pesos	Pesos
Minerva San Gregorio S.A.	50	302,900,000	302,900,000
Bolir S.A.	1,150	954,500	954,500
Brimol S.A.	1,150	641,044	641,044
Dalvan S.A.	1,150	5,100,000	5,100,000
Glendora S.A.	1,150	17,000,000	17,000,000
Montemura S.A.	1,150	641,044	641,044

## 9. ANTICIPATED CLOSING OF HEDGE FACILITY AGREEMENT

As at 30 December 2001, 31 December 2002, and 30 September 2003 Minera San Gregorio S.A. had a forward gold hedging facilities with Standard Bank London Limited to sell forward the following ounces of gold.

<u>Date</u>	<u>Price</u>	<u>Ounces.</u>
	US\$	
31 January 2003	300	1,900
28 February 2003	300	4,200
31 March 2003	300	4,200
30 April 2003	300	4,200
30 May 2003	300	4,200
30 June 2003	300	4,200
31 July 2003	300	4,200
29 August 2003	300	4,200
30 September 2003	300	4,200
31 October 2003	300	4,200
28 November 2003	300	4,200
31 December 2003	300	4,200
30 January 2004	300	3,590
27 February 2004	300	3,590
31 March 2004	300	3,590
30 April 2004	300	3,590
31 May 2004	300	3,590
30 June 2004	300	3,590
<b>Total oz.</b>		<u><u>69,640</u></u>

On 1 October 2004, the hedging agreement was terminated as a condition of the acquisition of Minera San Gregorio S.A. by Uruguay Mineral Exploration inc (Note 13) and resulted in a realised loss of US\$ 2,759,321.

As at 31 December 2001 Minera San Gregorio S.A. had forward gold hedging facilities with Standard Bank London Limited to sell forward the following ounces of gold.

<u>Year</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Hedge facility 1			
Deliverable gold ounces	774		
Hedge Price US\$/oz	300.05		
Hedge facility 2			
Deliverable gold ounces	48,852	50,400	10,770
Hedge Price US\$/oz	300	300	300

## 10. EXPLORATION IN SANTA TERESA AND EAST EXTENSION

The exploration of Santa Teresa and East Extension began in August 2001 and the total costs reflected as deferred charges were US\$ 468,724 in the year ended 31 December 2001 and US\$ 1,130,340 in the year ended 31 December 2002. Production at the site commenced in 2002. Subsequent to the commencement of

the exploitation of mineral reserves at Santa Teresa an extension of the original site was approved following the discovery of additional reserves.

In August 2003 production in Zapucay commenced. After the commencement of the exploitation of Zapucay mineral reserves an extension of the original site was approved following the discovery of additional reserves. The Zapucay mine life is estimated at two years and 500,000 tonnes are expected to be mined out.

#### **11. LONG TERM PROJECTION**

Following the acquisition of the Combined Group by Uruguay Minerals Exploration Inc., plant and infrastructure will be used to process additional reserves in the Minas de Coralles region owned by Uruguayan subsidiaries of Uruguay Minerals Exploration Inc.

#### **12. LONG TERM INTEREST EXPENSE**

A loan Repayment Rights Agreement & Orderly Disposition Agreement has been signed between Standard Bank London and Crystallex International Capital Corporation.

The interest on this agreement incurred for the nine months to 30 September 2003 amounted to US\$ 37,027 (year to 31 December 2002—US\$ 262,084, year to 31 December 2001—US\$ nil) was charged to Minera San Gregorio S.A.

That interest was charged using rates between 3.75688% and 3.93% over a capital amount that varied between US\$ 8,075,677 and US\$ 3,702,848.

#### **13. SUBSEQUENT EVENTS**

All the shares of Minera San Gregorio S.A., Brimol S.A., Bolir S.A., Montemura S.A., Dalvan S.A. and Glendora S.A., were acquired by Uruguay Mineral Exploration Inc., a Canadian company which trades on the Toronto stock exchange effective as of 1 October 2003.

#### **14. DIFFERENCE BETWEEN URUGUAYAN GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

The combined financial statements are prepared in accordance with Uruguayan GAAP which generally conform to IFRS except for the following:

- Under Uruguayan GAAP there is no requirement to account for unrealised gains or losses on derivative financial instruments however disclosure is required of any such arrangements in a footnote. Under IFRS, the fair value of derivative instruments is required to be recognised in the balance sheet and unrealised gains or losses reflected in the income statement.
- Under Uruguayan GAAP, provision for restoration costs at the end of the life of a mine site are accrued over the life of the mine based on the units of production of the mine. Under IFRS, provision should be made in full at the commencement of mining activities for the discounted value of the future expected obligation and an equivalent fixed asset recorded. The fixed asset should be depreciated over the units of production and the discount factor on the provision unwound through the income statement over the life of the mine.
- Under Uruguayan GAAP, loans repayable in gold are carried at the cash draw-down value of the loan. Under IFRS, financial liabilities such as gold loans are measured at fair value or amortised cost at the balance sheet date and the fair value of gold price indexed embedded derivatives in the loan contract are also recognised in the balance sheet with unrealised gains or losses on the movement in those fair values reflected in the income statement.

#### **Limitation of scope**

- Under Uruguayan GAAP there is no requirement to review the carrying value of fixed assets and deferred costs for impairment at the balance sheet date. Under IFRS, if there is an indication of impairment such as continuing losses, assets should be reviewed for impairment and a change recorded if the assets are impaired.
- A total adjustment in respect of the impairment of fixed assets, deferred costs and inventory in accordance with IFRS has been calculated as at 30 September 2003 as US\$ 5,537,412. It has not

been possible to reliably calculate this adjustment for earlier periods due to a lack of availability of necessary information.

	Combined balance sheet as at 30 September 2003—asset (liability)					Combined income statement for the nine months ended 30 September 2003
	Reclamation provision	Deferred Costs	Property, plant and equipment	Derivative Financial Instruments	Retained earnings (deficit)	Net loss
	US\$	US\$	US\$	US\$	US\$	US\$
Under Uruguayan GAAP	(916,562)	3,868,824	5,262,540	—	(17,085,918)	(6,429,442)
Adjusted for the fair value of gold hedging arrangements	—	—	—	(2,759,321)	(2,759,321)	548,579
Adjusted for the re-classification of foreign exchange retranslation losses	—	—	—	—	—	47,425
Adjusted for the impairment of fixed assets and deferred costs	—	(3,931,492)	(1,605,920)	—	(5,537,412)	(5,537,412)
Adjusted to make full provision for expected reclamation costs	(445,980)	62,668	150,000	—	(156,262)	121,262
Under IFRS	<u>(1,362,542)</u>	<u>—</u>	<u>3,806,620</u>	<u>(2,759,321)</u>	<u>(25,538,913)</u>	<u>(11,249,588)</u>

	Combined balance sheet as at 31 December 2002—asset (liability)				Combined income statement for the nine months ended 30 September 2002
	Reclamation provision	Property, plant and equipment	Derivative Financial Instruments	Retained earnings (deficit)	Net loss
	US\$	US\$	US\$	US\$	US\$
Under Uruguayan GAAP	(728,300)	9,095,813	—	(10,656,476)	(9,920,486)
Adjusted for the fair value of gold hedging arrangements	—	—	(3,307,900)	(3,307,900)	(5,734,371)
Adjusted for the re-classification of foreign exchange retranslation losses	—	—	—	—	286,279
Adjusted to make full provision for expected reclamation costs	(489,515)	211,991	—	(277,524)	(257,339)
Under IFRS	<u>(1,217,815)</u>	<u>9,307,804</u>	<u>(3,307,900)</u>	<u>(14,241,900)</u>	<u>(15,625,917)</u>

	Combined balance sheet as at 31 December 2001—asset (liability)				Combined income statement for the nine months ended 30 September 2001
	Reclamation provision	Property, plant and equipment	Derivative Financial Instruments	Retained earnings (deficit)	Net loss
	US\$	US\$	US\$	US\$	US\$
Under Uruguayan GAAP	(784,876)	15,393,329	—	(32,413,592)	(9,947,775)
Adjusted for the fair value of gold hedging arrangements	—	—	2,426,471	2,426,471	(3,731,093)
Adjusted for the fair value of gold loan embedded derivative	—	—	—	—	(960,040)
Adjusted for the re-classification of foreign exchange retranslation losses	—	—	—	—	163,585
Adjusted to make full provision for expected reclamation costs	(364,006)	343,819	—	(20,188)	(373,472)
Under IFRS	<u>(1,148,882)</u>	<u>15,737,148</u>	<u>2,426,471</u>	<u>(30,007,309)</u>	<u>(14,852,194)</u>

## **15. EMPHASIS OF MATTER**

The audit reports for the period ended 30 September 2003, and years ended 31 December 2002 and 2001 were unqualified but contained an emphasis of matter related to the going concern of the combined entities based on significant liabilities due to the parent company, Crystallex Capital Corporation, and reliance on Crystallex Capital Corporation for continued support in order to pay liabilities as they fall due. As a consequence of the acquisition of the companies by Uruguay Mineral Exploration Inc. on 1 October 2003, the circumstances giving rise to the going concern emphasis of matter are no longer relevant.

## **16 AUDITORS**

The accountants' report has been based on non-statutory accounts audited by Tea Deloitte & Touche, Cerrito 420, Piso 7, Montevideo, 11.00, Uruguay.

Yours faithfully

Deloitte & Touche LLP  
Chartered Accountants

PART C: DIRECTORS' QUARTERLY REPORT FOR THE THREE MONTHS TO 31 AUGUST 2004

URUGUAY MINERAL EXPLORATION INC.  
 CONSOLIDATED BALANCE SHEETS  
 (Unaudited—Prepared by management)  
 (United States Dollars)

	As at August 31, 2004	May 31, 2004 (Audited)
	US\$	US\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents (Note 8(b))	4,200,876	4,970,680
Accounts receivable	1,665,543	1,442,021
Inventories	4,816,850	4,087,809
Prepaid expenses and other	899,984	668,526
	<u>11,583,253</u>	<u>11,169,036</u>
<b>Refundable deposits</b>	162,097	125,378
<b>Property plant and equipment (Note 2)</b>	6,592,866	5,034,228
<b>Deferred exploration and development costs (Note 3)</b>	10,310,136	9,665,431
<b>Total Assets</b>	<u>28,648,352</u>	<u>25,994,073</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	3,900,758	3,570,273
Debt (Note 4)	1,255,526	—
Unrealized fair value of derivative instruments (Note 4a)	210,000	—
Deferred payment on property purchased (Note 10)	700,000	700,000
	<u>6,066,284</u>	<u>4,270,273</u>
<b>Asset retirement obligation</b>	1,383,603	1,362,542
<b>Total Liabilities</b>	<u>7,449,887</u>	<u>5,632,815</u>
<b>Equity instruments (Note 5)</b>	21,057,123	20,817,115
<b>Contributed surplus</b>	1,288,828	880,700
<b>Subscriptions receivable</b>	(3,040)	—
<b>Cumulative translation adjustment</b>	(18,620)	(18,620)
<b>Deficit</b>	<u>(1,125,826)</u>	<u>(1,317,937)</u>
<b>Total Shareholders Equity</b>	<u>21,198,465</u>	<u>20,361,258</u>
<b>Total Liabilities and Shareholders Equity</b>	<u>28,648,352</u>	<u>25,994,073</u>
Commitments and contingencies (Note 9)		

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

**URUGUAY MINERAL EXPLORATION INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT**  
(Unaudited—Prepared by management)  
(United States Dollars)

	Three months ended	
	August 31, 2004	August 31, 2003
	US\$	US\$
<b>Sales</b>	6,077,656	—
<b>Operating expenses</b>	4,535,254	—
<b>Contribution margin</b>	<u>1,542,402</u>	<u>—</u>
<b>Other expenses</b>		
Amortization, depletion and accretion	242,869	69
Compensation expense—stock based	408,128	510,954
General and administrative	341,844	35,716
Fair value adjustment for derivatives	210,000	—
Interest and financing fees	195,882	—
	<u>1,398,723</u>	<u>546,739</u>
<b>Income (loss) before other items and taxes</b>	143,679	(546,739)
<b>Other items</b>		
Interest and other income	6,066	—
Foreign exchange gain	42,366	—
<b>Income (loss) before taxes</b>	<u>192,111</u>	<u>(546,739)</u>
<b>Income taxes</b>	<u>—</u>	<u>—</u>
<b>Net income (loss) for the period</b>	192,111	(546,739)
<b>Deficit, beginning of period</b>	<u>(1,317,937)</u>	<u>(1,871,107)</u>
<b>Deficit, end of period</b>	<u>(1,125,826)</u>	<u>(2,417,846)</u>
<b>Basic earnings (loss) per share</b>	0.004	(.015)
<b>Diluted earnings (loss) per share</b>	0.004	—

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

**URUGUAY MINERAL EXPLORATION INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited—Prepared by management)**  
**(United States Dollars)**

	<b>Three months ended</b>	
	<b>August 31, 2004</b>	<b>August 31, 2003</b>
	<b>US\$</b>	<b>US\$</b>
<b>Operating activities</b>		
Net income/(loss) for the period	192,111	(546,739)
Adjustments for:		
Amortization, depletion and accretion	242,869	69
Foreign exchange	—	1,197
Fair value adjustment of derivatives	210,000	—
Compensation expense—stock based	408,128	510,954
Finance fees—stock based	188,146	—
	<u>1,241,254</u>	<u>(34,519)</u>
Net change in non-cash working capital balances (Note 8)	<u>(853,535)</u>	<u>21,198</u>
	<u>387,719</u>	<u>(13,321)</u>
<b>Financing activities</b>		
Proceeds from the issue of share capital, net of issue costs	48,822	—
Proceeds from bank debt	1,000,000	—
Proceeds from deferred equipment purchase	307,801	—
Repayment of deferred equipment purchase	(52,275)	—
	<u>1,304,348</u>	<u>—</u>
<b>Investing activities</b>		
Refundable deposits	(36,719)	—
Purchase of property, plant and equipment	(1,780,447)	(94,078)
Payments for exploration	(644,705)	(404,330)
	<u>(2,461,871)</u>	<u>(498,408)</u>
<b>Increase (decrease) in cash</b>	<u>(769,804)</u>	<u>(511,729)</u>
Cash and cash equivalents, beginning of period	<u>4,970,680</u>	<u>1,597,168</u>
<b>Cash and cash equivalents, end of period (Note 8(b))</b>	<u><u>4,200,876</u></u>	<u><u>1,085,439</u></u>

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

**URUGUAY MINERAL EXPLORATION INC.**  
**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(Unaudited—Prepared by management)**  
**August 31, 2004**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The reporting currency used in the United States dollars which is also the Company's functional currency. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality. These interim consolidated financial statements should be read in conjunction with the most recent annual consolidated financial statements. The significant accounting policies follow that of the most recently reported annual consolidated financial statements except for the following:

(a) Property, plant and equipment

Plant and equipment are recorded at cost less accumulated amortization. Mobile and other equipment are amortized on a straight line method over the estimated productive life of the asset. Productive lives for mobile and other equipment range from 2 to 5 years, but do not exceed the related estimated life of the mine. Plant and other facilities used in carrying out the mine operating plan, are amortized, net of salvage value, using a units of production method over the estimated life of the mine based on tones of ore processed from proven and probable reserves.

*Mineral properties*

Mineral properties include development costs incurred to bring a mining property into production, develop new ore bodies or develop mining areas in advance of production are capitalized and charged to operations using the units of production method based on the estimated life of mine. Amounts shown as development costs are net of metal recoveries prior to production. Once producing, the group expenses open pit stripping costs as incurred.

Proceeds from disposition of mineral properties are normally credited to the capitalized costs with no gain or loss being recognized unless the sale is significant to the capitalized property costs. For such significant dispositions, a gain or loss would be recognized. Expenditures attributed to abandoned projects are written off in the year that the project is abandoned.

(b) Deferred exploration and development costs

The Company is engaged in the acquisition, exploration and development of exploration properties. All acquisition, exploration such as topographical, geochemical and geophysical studies and related direct and indirect overhead expenditures are deferred and carried at cost until the properties to which they relate are placed into commercial operations, sold or where management has determined there to be a permanent impairment in value. Mineral properties and development costs including acquisition costs, direct mineral exploration costs and capitalized indirect overheads. These costs are capitalized and deferred until the property is in commercial production, when these costs will be depleted as detailed in Note 1(a) above. The costs relating to a property abandoned are written off when the decision to abandon is made, or when there has been a delay in development activities that extend beyond three years, unless there is persuasive evidence to the contrary.

The amount recorded as capitalized indirect overheads under deferred exploration and development costs is based on estimates and breakdown between exploration and development costs versus general and administrative activities. By their nature, these estimates are based on management's judgment and planned course of action. These estimates are subject to measurement uncertainty and the effect on the consolidated financial statements for changes in estimates in future periods could be significant.

The recoverability of amounts shown for deferred exploration and development costs is dependent upon the discovery of economically recoverable reserves, continued confirmation of the Company's interest in

the underlying concessions, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or proceeds from disposition or farm-out of existing mining interests. The total amount recorded for deferred exploration and development costs represents expenditures incurred to date and does not reflect nor is it an indicator of present or future values.

(c) Stock-based compensation plan

The Company uses the fair value method to measure the cost of awards under stock-based compensation plans with the change in fair value reported in the statements of operations. The Company records a compensation expense when options are issued to employees. Any consideration paid by employees on the exercise of the options is credited to capital stock. Compensation expense is recorded for options issued to consultants and non-employees.

(d) Financial Derivatives

The company entered into spot deferred gold contracts during the period to provide price protection whilst processing lower grade higher cost ore, committing to capital expenditure and completing debt financing arrangements. These contracts were deferred to future periods and incorporated into a longer term price protection program subsequent to period end.

Although management believe that these contracts were effective in mitigating the company's downside exposure to the gold price, under the CICA Accounting Guideline 13 "Hedging relationships" it is unlikely that transactions completed during the period would meet the requirements to allow accrual accounting. Derivative financial instruments that do not qualify for hedge accounting are required to be marked to market with the fair value of the derivative instruments and recognized as unrealized gains and losses in the statement of operations and deficit.

## 2. PROPERTY, PLANT AND EQUIPMENT

	August 31, 2004		
	Cost	Accumulated Amortization	Net Book Value
	US\$	US\$	US\$
Land and lease rights	670,670	—	670,670
Plant and equipment	6,006,180	893,649	5,112,531
Mineral properties	809,665	—	809,665
	<u>7,486,515</u>	<u>893,649</u>	<u>6,592,866</u>
	May 31, 2004		
	Cost	Accumulated Amortization	Net Book Value
	US\$	US\$	US\$
Land and lease rights	670,670	—	670,670
Plant and equipment	4,225,736	671,843	3,553,893
Mineral properties	809,665	—	809,665
	<u>5,706,071</u>	<u>671,843</u>	<u>5,034,228</u>

## 3. DEFERRED EXPLORATION AND MINERAL PROPERTIES

	August 31, 2004	May 31, 2004 (audited)
	US\$	US\$
Acquisition costs and option payments	1,536,944	1,536,944
Exploration, development and other property costs	5,540,221	4,990,339
Capitalized indirect overheads, net of exchange gains	3,232,971	3,138,148
	<u>10,310,136</u>	<u>9,665,431</u>

(a) The Company has the right to purchase shares of a Uruguayan company, Davinco S.A (Presidente Terra project). Pursuant to an agreement dated May 14, 1997. The terms of this purchase are as follows:

(i) 80% of DAVINCO SA issued shares for the amount of US\$ 750,000, payable in installments. US\$ 475,000 has been paid up to November 30, 2001. The balance of installments is due as follows:

<u>Installment</u>	<u>Due date</u>
US\$ 275,000	Within 5 days after the issue of a feasibility study on mineral properties held by DAVINCO SA.

(ii) 20% of DAVINCO SA total shares, once the 80% has been acquired and provided a decision has been made to continue mineral exploration, at a variable price depending on the productive potential.

(b) The Uruguay Mining legislation requires all mining titles to be supported by guarantees for any environmental rehabilitation requirements resulting from exploration or mining activities. These guarantees are required to be posted by non-title holders. As a result, certain of the Company's employees, officers and directors have provided personal assets as guarantees. The Company intends to compensate these individuals in the event that the guarantee is called. The Company has also agreed to pay a guarantee fee to the individuals at rates advantageous to the Company. This fee is based on the amount of the guarantee and is negotiated on a case-by-case basis. The total guarantees provided at August 31, 2004 were approximately US\$ 823,973. These relate to potential site restoration responsibilities associated with exploration activities. In addition, as a consequence of the acquisition of the San Gregorio mine, the Company has assumed full responsibility for the rehabilitation of the mining site. This obligation is supported by a rehabilitation guarantee of US\$ 1,500,000, which guarantee is in turn supported by the sum of US\$ 1,500,000 held in escrow in a Canadian Bank. According to an independent engineering report issued July 2002, the Company's current site restoration liability in respect of its exploration activities is not material.

No projects were abandoned in the current period.

#### 4. DEBT

	<u>August 31, 2004</u>	<u>May 31, 2004 (audited)</u>
	US\$	US\$
<b>Drawn debt facilities</b>		
Working capital facility(a)	1,000,000	—
Vendor equipment finance(c)	255,526	—
	<u>1,255,526</u>	<u>—</u>
<b>Available debt facilities</b>		
Working capital facility(a)	1,000,000	—
Vendor equipment finance(b)	4,761,935	—
	<u>5,761,935</u>	<u>—</u>

(a) On August 8, 2004, the Company entered into a secured US\$ 2,000,000 interim working capital facility with Macquarie Bank Limited. Subsequently to period end, the Company commenced negotiations and received an offer to replace the working capital facility with a secured financing facility of US\$ 6,500,000. This facility will provide US\$ 1,500,000 for environmental bonds and US\$ 5,000,000 for working capital needs. The facility will bear interest at a rate of Libor plus 2% and is secured by a general floating charge over all of the Company's assets. The terms of the offer are subject to certain conditions and requirements. The Company is currently negotiating these terms and anticipates finalizing an agreement by November 30, 2004.

In conjunction with the interim loan facility the Company entered into a contract to forward sell 10,000 ounces of gold on a spot deferred basis at US\$ 388.50 per ounce. The fair value of this contract at August 31, 2004 was US\$ 210,000.

- (b) On August 5, 2004, Loryser S.A. signed a sale and purchase agreement for the purchase of US\$ 6,349,247 in mine equipment. The equipment is being purchased on deferred payment terms with an initial payment of 25%, twelve monthly installments equal to 15% and a final balloon payment of 60% 12 months from the date that equipment is assembled and ready to work. Interest on all balances outstanding accrues at the 90 day Libor rates plus 4%.
- (c) On July 1, 2004, Loryser S.A. signed a sale and purchase agreement for the purchase of US\$ 410,402 in mine equipment. The equipment is being purchased on deferred payment terms with an initial payment of 25%, seven monthly installments equal to 25% and a final balloon payment of 50% on December 31, 2004.

## 5. EQUITY INSTRUMENTS

- (a) Authorized

Unlimited number of Common Shares

- (b) Issued

Common shares	August 31, 2004		May 31, 2004	
	Number	Amount US\$	Number	Amount US\$
Issued and outstanding, beginning of year	42,865,413	21,193,763	36,297,080	12,278,459
Issued for stock options exercised	107,500	29,016	150,000	44,710
Issued for cash	—	—	2,400,000	4,628,582
Issued for exercise of warrants for cash	8,000	24,512	4,018,333	4,242,012
Issued and outstanding	42,980,913	21,247,291	42,865,413	21,193,763
Less: cumulative share issue costs <sup>(1)</sup>		(924,643)		(924,643)
Balance, end of year	42,980,913	20,322,648	42,865,413	20,269,120
Weighted average number of shares	42,887,246		39,590,211	

Warrants	August 31, 2004		May 31, 2004	
	Number	Amount US\$	Number	Amount US\$
Issued and outstanding, beginning of year	2,630,000	547,995	4,008,333	140,000
Issued for finance fee	250,000	188,146	—	—
Issued for private placement	—	—	2,400,000	500,000
Issued as a commission for private placement	—	—	240,000	50,075
Exercised	(8,000)	(1,666)	(4,008,333)	(142,080)
Issued and outstanding, end of year	2,872,000	734,475	2,640,000	547,995
<b>Total equity instruments</b>		21,057,123		20,817,115

- (1) These costs have been recorded gross of any related tax effect, as the ultimate utilization of any related tax benefit is currently uncertain.

- (c) Warrants Issued

During August 2004, the Company issued 250,000 warrants at a exercise price of C\$ 3.75 per share in satisfaction of a financing fee on the facilities detailed at Note 4(a). The fair value of these options were estimated using the Black and Scholes option pricing model with the following assumptions: Dividend yield (nil), Expected volatility (.4), risk free rate (3%) and a weighed average life of 2 years. As such a value of US\$ 188,146 was attributed to these warrants.

(d) Options and Warrants

At August 31, 2004, the Company has 2,872,000 (May 31, 2004—2,630,000) options and warrants outstanding. During the period, the Company issued 250,000 (2003—2,640,000) warrants and nil (2004—nil) options. The outstanding warrants and options are exercisable as follows:

Number of Warrants	Option Price C\$	Expiry Date
2,622,000	3.75	April 21, 2005
250,000	3.75	August 8, 2006

The Company has a director and employee stock option plan under which it may grant options to its directors and employees. The employee option Plan is for officers, directors and employees of the Company. Options under the plan are typically granted in such numbers as reflects the responsibility of the particular optionee and his or her contribution to the business and activities of the Company. Options granted under the plan have a term of up to 5 years. Except in specified circumstances, options are not assignable and terminate on the optionee ceasing to be employed by or associated with the Company. The terms of the plan further provide that the price at which shares may be issued under the Plan cannot be less than the market price (net of permissible discounts) of the shares when the relevant options were granted.

The following table summarizes information regarding the Company's outstanding options as at August 31, 2004:

	Number of Shares	Option Price per Share Range C\$	Weighted Average Exercise Price C\$
Options outstanding, May 31, 2003	1,435,000	0.30–1.00	0.53
Options—granted	1,420,000	1.50–4.00	2.03
Options—exercised	(150,000)	0.40	0.40
Options outstanding, May 31, 2004	2,705,000	0.30–1.00	0.53
<b>Options—granted</b>	476,000	3.00–3.50	3.06
<b>Options—exercised</b>	(107,500)	0.30–0.40	0.35
<b>Options outstanding, August 31, 2004</b>	3,073,500	0.40–4.00	1.12

The following table summarizes information about the stock options outstanding to the officers, directors and staff at August 31, 2004:

Options Outstanding	Option price C\$	Weighted Average Exercise Price C\$	Remaining Contractual Life
727,500	0.40	0.40	2.4 years
300,000	0.75	0.75	3.5 years
150,000	1.00	1.00	3.0 years
1,120,000	1.50	1.50	4.0 years
300,000	4.00	4.00	4.6 years
416,000	3.00	3.00	4.7 years
60,000	3.50	3.50	4.8 years
<u>3,073,500</u>			

All of the options detailed above are fully exercisable.

For the purposes of stock based compensation, the fair value of each option was determined on the date of granting using the Black-Sholes option pricing model with the following assumptions: Dividend yield (Nil) (2004—Nil), expected volatility (0.40) (2004—range of 0.40 to 0.50), risk-free interest rate (3.0%) (2004—3%), and weighted average life of 4.0 years (2004—4.0 years).

## 6. RELATED PARTY TRANSACTIONS

Included in accounts receivable is US\$ 39,497 (2003—US\$ 39,497) in employee loans. The employee loans have been used for the benefit of the Company to provide certain guarantees as required by the Uruguayan Government in relation to prospecting and exploration activities. The entire balance of US\$ 39,497 is expected to be paid by 30 November, 2004.

## 7. SEGMENTED INFORMATION

The Company has three reportable segments: Gold, exploration and corporate. The corporate segment is responsible for corporate financing and other business development activities for the Company. The Gold segment operates the San Gregorio gold mine and the exploration segment is devoted to the acquisition and exploration of mineral properties. The gold and exploration segments operate solely in Uruguay. Precious metals are refined and sold in the United Kingdom.

	2004			
	Gold	Exploration	Corporate	Total
	US\$	US\$	US\$	US\$
Sales	6,077,656	—	—	6,077,656
Net income (loss)	626,989	(4,976)	(429,902)	192,111
Property, plant and equipment	5,401,458	1,181,399	10,009	6,592,866
Deferred exploration and development	—	10,310,136	—	10,310,136

	2003			
	Gold	Exploration	Corporate	Total
	US\$	US\$	US\$	US\$
Sales, net of royalties	—	—	—	—
Net income (loss)	—	—	(546,739)	(546,739)
Property, plant and equipment	—	138,612	747	139,359
Deferred exploration and development	—	8,413,143	—	8,413,143

## 8. SUPPLEMENTARY CASH FLOW INFORMATION

(a) The net change in working capital items is as follows:

	Three months ended	
	August 31, 2004	August 31, 2003
	US\$	US\$
Prepaid expenses and refundable deposits	(231,457)	(13,444)
Accounts receivable	(223,522)	—
Accounts payable and accrued liabilities	330,485	34,642
Inventory	(729,041)	—
Net change in non-cash working capital balances	<u>(853,535)</u>	<u>21,198</u>

(b) Included in cash and cash equivalents is US\$ 1,500,000 of cash held in escrow to support environmental bonds.

## 9. COMMITMENTS

During the quarter a letter of credit for US\$ 1,587,312 was provided to the supplier of equipment referred to at note 4 (b) to support equipment payments. This letter of credit was reduced to US\$ 1,165,356 by August 31, 2004. The letter of credit is supported by a pledge over assets.

## 10. SUBSEQUENT EVENTS

(a) Subsequent to August 31, 2004 it has come to the Company's attention that there is an unrecorded liability, relating to the period prior to the acquisition of Minera San Gregorio S.A. by the Company, of between US\$ 300,000 and US\$ 500,000. The purchase agreement limits the level of liabilities and provides specific representation and warranties in this regard. The Company has served a reduction notice to reduce the amount due to the vendor by offsetting undisclosed liabilities against the US\$ 1,000,000 due October 24, 2004. The company has no obligation to pay

the US\$ 1,000,000 until the position on the undisclosed liabilities is resolved. This is expected to occur by 30 November 2004.

- (b) Subsequent to period end, the Company had 94,000 options exercised for US\$ 48,280.
- (c) Subsequent to period end, the Company restructured its gold hedge positions. 10,000 ounces of spot deferred gold contracts at a strike price of US\$ 388.50 were replaced. The Company purchased 50,000 put options at a strike price of US\$ 400 per ounce and 50,000 call options at a strike price of US\$ 436 per ounce. Put and call options are equally matched with deliveries of 2,500 ounces per month commencing November 2004.

**URUGUAY MINERAL EXPLORATION INC.**  
**SCHEDULE OF MINERAL PROPERTIES AND DEFERRED COSTS**

(Unaudited)  
August 31, 2004

	May 31, 2004	Expenditures	Abandonments/ Transfers	August 31, 2004
	US\$	US\$	US\$	US\$
Minas de Corrales Gold Project <sup>(1)</sup>				
Acquisition	900,000	—	—	900,000
Exploration	2,876,817	443,069	—	3,319,886
Deferred administration	1,915,587	76,403	—	1,991,990
	<u>5,692,404</u>	<u>519,472</u>	<u>—</u>	<u>6,211,876</u>
Base Metals Projects <sup>(2)</sup>				
Acquisition	105,180	—	—	105,180
Exploration	1,268,463	87,406	—	1,355,869
Deferred administration	848,970	15,073	—	864,043
	<u>2,222,613</u>	<u>102,479</u>	<u>—</u>	<u>2,325,092</u>
Other Gold Projects <sup>(3)</sup>				
Acquisition	480,000	—	—	480,000
Exploration	515,309	2,614	—	517,923
Deferred administration	354,235	451	—	354,686
	<u>1,349,544</u>	<u>3,065</u>	<u>—</u>	<u>1,352,609</u>
Diamonds Projects <sup>(4)</sup>				
Acquisition	65,180	—	—	65,180
Exploration	29,606	16,793	—	46,399
Deferred administration	19,356	2,896	—	22,252
	<u>114,142</u>	<u>19,689</u>	<u>—</u>	<u>133,831</u>
Regional Exploration <sup>(5)</sup>				
Acquisition	—	—	—	
Exploration and overhead	286,728	—	—	286,728
	<u>9,665,431</u>	<u>644,705</u>	<u>—</u>	<u>10,310,136</u>

No amounts directly related to these projects were expensed. During the period ended August 31, 2004, total expenditures for deferred exploration and mineral properties were US\$ 644,705 (2004—US\$ 1,655,421).

- (1) **Minas de Corrales Gold Project:** The MMGP is situated approximately 450 kilometers north of Montevideo and features Uruguay's only operating gold mine. The Corporation controls 100% of this historic gold field, which is characterized by widespread gold mineralization. The two largest deposits discovered to-date are the San Gregorio deposit, which has produced over 500,000 ounces since it was discovered in the mid 1880's, and the Arenal deposit, which was discovered in 2003. Arenal, which is still being evaluated, contains an inferred resource of over 750,000 ounces. It will be brought into production in October 2004. Other mineable deposits in the area include Sobre Saliente and Castrillón, where indicated resources of approximately 200,000 and 20,000 ounces of gold respectively have been delineated. The Company has an aggressive exploration effort underway in the area targeting further "Arenal-style" deposits.
- (2) **Base Metals Projects.** These include the **Isla Patrulla/Texas** copper/gold project where a substantial zone of copper and gold anomalism has been identified approximately 300 kilometres north-east of Montevideo. A number of targets have been identified using a combination of stream geochemistry and airborne geophysics, and these targets are being ranked using a program of detailed geological mapping and soil sampling. Previous drilling at the Texas prospect intersected high-grade, but narrow width copper/gold/lead/silver mineralization, and the search now is for locations where this mineralization will have accumulated in greater thicknesses. At **Mal Abrigo**, located approximately 140 kilometres WNW of Montevideo, a large, layered mafic/ultramafic complex is the subject of

study for nickel/copper/platinoids. Disseminated copper and nickel sulphides are visible at the surface in a number of places and work is underway to identify areas where massive sulphides may have accumulated. At **Lascano**, located approximately 250 kilometers north-east of Montevideo, a very strong gravity high approximately 70 kilometers long by up to 40 kilometers wide is being explored as a nickel/copper/platinoid project. Following the drilling of a 450 meter-deep stratigraphic hole in 2002, further modeling work has changed the understanding of the complex. Further geophysical work is required before new drill targets can be accurately specified. At **Paso del Lugo**, (nickel/copper) approximately 250 kilometres north-west of Montevideo, work is suspended pending title grant.

- (3) **Other Gold Projects.** These include **Presidente Terra**, which is located approximately 240 kilometers north east of Montevideo, where work conducted during 2000 and 2001 identified high-grade mineralized float over a 12 kilometer strike length of a large gold-mineralized shear system. Presidente Terra project has been on hold due to competing priorities, but work is scheduled to resume in 2005. **Mirta**, which is located near Colonia in the south-west of Uruguay, is a complex, shear-hosted gold deposit and the Company has been assessing the mineralisation controls in order to define further drill targets. The deposit is characterized (so far) by a series of short, plunging, high-grade ore zones contained within a broader, low-grade mineralisation envelope. At **Chamizo**, which is located approximately 120 km ENE of Montevideo, a gold-bearing metamorphosed acid tuff is being investigated. Best drill results released to-date include 9 metres grading 4.5 g/t Au (Mike to confirm).
- (4) **Diamonds including Cinco Rios Project.** This project is located in the North of Uruguay and includes the Minas de Corrales area as well as the properties obtained with the acquisitions of Cinco Rios SA. A close-spaced stream sampling program has commenced to follow-up earlier promising results. The Company has previously recovered several macro-and micro-diamonds, together with kimberlite indicator minerals (including G10 garnets) and the current work program is directed at narrowing down the catchment sizes.
- (5) **Regional Exploration.** The Company maintains an ongoing program of identifying and field-checking geochemical anomalies obtained from reviewing data held within the Company's proprietary data-base. Where appropriate successful prospects are designated and allocated to the major project groupings shown above.

**PART V**  
**ADDITIONAL INFORMATION**

**1. Corporate Information**

- 1.1 The Company was incorporated in October 1996 as 713257 Alberta Ltd. pursuant to the Business Corporations Act (Alberta) with Corporate Access Number 20713257. On 31 January 1997, the Company changed its name to Uruguay Goldfields Inc. (“UGI”). On 13 February 1998, UGI amalgamated with Canadian Black River Petroleum Ltd., continuing as UGI. This amalgamation enabled the Company to list on the Canadian Dealing (over-the counter) Network in Toronto, Ontario. On 29 March 2000, the common shares of UGI were admitted for listing on the Canadian Venture Exchange (CDNX), which became the TSXV in June 2000. On 8 February 2002, the Company changed its name to Uruguay Mineral Exploration Inc., and continued from the Province of Alberta to the Yukon Territory to be governed by the corporate laws of the Yukon Territory with Corporate Access Number 29298.
- 1.2 The principal legislation under which the Company operates is the Yukon Act.
- 1.3 The principal activity of the Company is that of gold production and mineral exploration in Uruguay.
- 1.4 The Company was incorporated as a company, the shareholders of which, pursuant to the Yukon Act have limited liability.
- 1.5 The Company’s registered office is located at Campion, Macdonald Barristers & Solicitors, Suite 200–204 Lambert Street, Whitehouse, Yukon Y1A 3T2 Canada, and it also has an office at 888, 900 6<sup>th</sup> Avenue S.W. Calgary, Alberta T2P 3K2 Canada.
- 1.6 The Company, through its subsidiaries, maintains administrative and field offices in Montevideo and Minas de Corrales respectively.
- 1.7 The register of members of the Company is held by Computershare Trust Company of Canada, 600, 530—8<sup>th</sup> Avenue S.W. Calgary, Alberta T2P 3S8, Canada.

**2. Group Structure**

- 2.1 The Company has one wholly owned subsidiary, being International Mining Holdings Limited, a company incorporated in Barbados with company number 13738 (“IMHL”).
- 2.2 IMHL has the following wholly owned subsidiaries:

<u>Name</u>	<u>Registered Office</u>	<u>Country of Incorporation</u>	<u>Principal activity and Place of Business</u>
Nafypel S.A. (RUC 21 441830 0014)	Plaza Independencia 811 Montevideo Uruguay	Uruguay	Mineral Exploration Uruguay
Loryser S.A. (RUC 21 362608 0015)	Plaza Independencia 811 Montevideo Uruguay	Uruguay	Mineral Exploration Uruguay
Glendora S.A. (RUC 21 145690 0010)	Plaza Independencia 811 Montevideo Uruguay	Uruguay	Mineral Exploration Uruguay
Brimol S.A. (RUC 21 148877 0015)	Plaza Independencia 811 Montevideo Uruguay	Uruguay	Mineral Exploration Uruguay
Cinco Rios S.A. 9 RUC 21 370752 0015)	Plaza Independencia 811 Montevideo Uruguay	Uruguay	Mineral Exploration Uruguay
Montemura S.A (RUC 21 271862 0018)	Plaza Independencia 811 Montevideo Uruguay	Uruguay	Mineral Exploration Uruguay

<u>Name</u>	<u>Registered Office</u>	<u>Country of Incorporation</u>	<u>Principal activity and Place of Business</u>
Triselco S.A. (RUC 21 350843 0016)	Plaza Independencia 811 Montevideo Uruguay	Uruguay	Mineral Exploration Uruguay
Dalvan S.A. (RUC 21 142379 0011)	Plaza Independencia 811 Montevideo Uruguay	Uruguay	Mineral Exploration Uruguay
Bolir S.A. (RUC 21 161949 0010)	Plaza Independencia 811 Montevideo Uruguay	Uruguay	Mineral Exploration Uruguay
Minera San Gregorio S.A. (RUC 21 144002 0016)	Plaza Independencia 811 Montevideo Uruguay	Uruguay	Mineral Production Uruguay

### **3. Share Capital**

- 3.1 The authorised share capital of the Company consists of an unlimited number of common shares without par or nominal value, of which, at the date of this document 43,259,913 Common Shares are issued and outstanding. There are no limits on the directors' authority to issue unissued but authorised shares in the capital of the Company.
- 3.2 The issued share capital of the Company as it is expected to be immediately following Admission will comprise 43,259,913 Common Shares, all of which will be fully paid up.

### **4. Options**

The Company has, to date, granted options over an aggregate of 2,994,500 Common Shares which are outstanding under the Stock Option Plan, the terms of which are outlined below:

#### *4.1 Introduction*

The Stock Option Plan was approved and ratified by the shareholders of the Company on February 23, 2001 and amended on November 18, 2004. Pursuant to the Stock Option Plan, the Board of Directors may allocate non-transferable options to purchase Common Shares to directors, officers, employees and consultants of the Company and its subsidiaries.

The Stock Option Plan is administered by the Board of Directors of the Company. Under the Stock Option Plan the time of granting the Options, the aggregate number of Common Shares to be delivered upon exercise of all Options granted thereunder, and the aggregate number of Common Shares to be delivered upon exercise of the Options to any one individual granted thereunder, may not exceed the maximum number permitted by any stock exchange on which the Common Shares may be listed or by any other regulatory body having jurisdiction.

Options issued pursuant to the Stock Option Plan will have an exercise price as determined by the Board of Directors of the Company provided that the exercise price shall not be less than the price permitted by any stock exchange on which the Common Shares are then listed.

Once the Options are authorised for issuance under the Stock Option Plan, each holder enters into an option agreement with the Company. Each agreement is subject to the terms and conditions of the Stock Option Plan.

During the Company's last fiscal year ended 31 May 2004, an aggregate of 700,000 Options were granted to the executive directors. During the Company's last fiscal year ended 31 May 2004, the Company granted an aggregate of 1,420,000 Options to non-executive directors, other officers, consultants and employees.

#### *4.2 Participation*

The grant of Options is made at the discretion of the Board and is confirmed by an option agreement entered into between the Company and the participant. Options are non-transferable except by will or the laws of descent or distribution.

Eligible persons for participation include any director, officer, consultant and employee of the Company or any of its subsidiary companies and of any company which provides management services to the Company or its subsidiaries (excluding investor relations services).

#### 4.3 *Stock Option Plan limits*

The Stock Option Plan provides that the aggregate number of shares issuable upon the exercise of all options granted under the Stock Option Plan shall not exceed 6,000,000 Common Shares. In the event that any Option granted under the Stock Option Plan shall expire or terminate for any reason in accordance with the Stock Option Plan without being exercised, the unpurchased Common Shares subject thereto shall again be available for the purposes of the Stock Option Plan.

The maximum number of Common Shares which may be issued to any one person under the Stock Option Plan shall be determined by the Board but shall not exceed the maximum number permitted by the TSXV.

#### 4.4 *Adjustments*

If the outstanding shares of the Company are increased, decreased, changed into or exchanged for a different number or kind of shares or securities of the Company through re-organization, merger, re-capitalisation, re-classification, stock dividend, subdivision or consolidation, an appropriate and proportionate adjustment shall be made by the Board in its discretion in the number or kind of shares optioned and the exercise price per share, as regards to previously granted and unexercised Options or portions thereof, and as regards to Options which may be granted subsequent to any such change in the Company's capital.

Upon the liquidation or dissolution of the Company or upon a re-organization, merger or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation, or upon the sale of substantially all of the property or more than eighty (80%) per cent. of the then outstanding shares of the Company to another corporation, the Stock Option Plan shall terminate, and any Options theretofore granted shall terminate unless provision is made in writing in connection with such transaction for the continuance of the Stock Option Plan and for the assumption of Options theretofore granted, or the substitution for such Options of new options covering the shares of a successor employer corporation, or a parent or subsidiary thereof, with appropriate adjustments as to number and kind of shares and exercise prices, in which event the Stock Option Plan and Options theretofore granted shall continue in the manner and upon the terms so provided. If the Stock Option Plan and unexercised Options shall terminate pursuant to the foregoing sentence, the shares subject to all Options granted shall immediately vest and all Participants then entitled to exercise an unexercised portion of Options then outstanding shall have the right at such time immediately prior to consummation of the event which results in the termination of the Stock Option Plan as the Company shall designate, to exercise their Options to the full extent not theretofore exercised.

Adjustments under this Section shall be made by the Board whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional share shall be required to be issued under the Stock Option Plan on any such adjustment.

#### 4.5 *Exercise of options*

Under the rules of the Stock Option Plan the Board may fix the period within which the Options must be exercised, subject to it not exceeding the maximum time permitted by the Exchange. If a participant ceases to be an eligible person (as defined in the Stock Option Plan) for any reason (excluding death), his Option is exercisable to a maximum of 90 days from that date (unless he was engaged in investor relations activities, in which case a maximum of 30 days from that date), to the extent vested.

#### 4.6 *Stock Option Plan amendments and termination*

The Board may, subject to the prior approval of the TSXV, at any time suspend or terminate the Stock Option Plan, or amend or revise the terms of the same provided that such amendment or revision shall not alter the terms of any Options already granted.

## 5. Warrants

- 5.1 Warrants were created by a purchase warrant indenture dated 17 October 2003 (the “Indenture”). Pursuant to the Indenture, warrants entitle the holders to subscribe in cash for up to 2,640,000 Common Shares at C\$ 3.75 per Common Share on or before 4:30 p.m. (Toronto, Ontario, Canada Time) on 7 April 2005 (the “April Transfer Date”). In the event that the individual holders have not exercised all of the purchase warrants on or before on the April Transfer Date, such unexercised warrants shall be deemed to be transferred, for no consideration, to a nominee of the Company (the “Nominee”) and the holder shall have no further rights in respect thereof. The Nominee shall thereafter have the same rights as herein prescribed in respect of the holder, *inter alia*, to acquire Common Shares issuable upon exercise of the unexercised warrants outstanding hereunder immediately prior to the deemed transfer to the Nominee. Such warrants may be exercised by the Nominee at any time and from time to time until 4:30 p.m. (Toronto, Ontario, Canada Time) 21 April 2005 and to the extent that they are not exercised on or before 21 April 2005, they shall lapse.

No modification, variation or amendment to the terms and conditions of the warrants shall be effective unless the modification, variation or amendment has been approved by a special resolution of the warrant holders. The terms and conditions include, *inter alia*, anti-dilution provisions and a right of assignment in whole or in part.

- 5.2 In addition to the warrants issued pursuant to the Indenture, the Company granted warrants to acquire an aggregate of 250,000 Common Shares to Macquarie Bank Limited upon payment of C\$ 3.75 per share on or before 25 August 2006 (the “August Transfer Date”). In the event that the holder has not exercised all of the warrants on or before on the August Transfer Date, such unexercised warrants shall be deemed to be transferred, for no consideration, to a Nominee and the holder shall have no further rights in respect thereof. The Nominee shall thereafter have the same rights as herein prescribed in respect of the holder, *inter alia*, to acquire Common Shares issuable upon exercise of the unexercised warrants outstanding hereunder immediately prior to the deemed transfer to the Nominee. Such warrants may be exercised by the Nominee at any time and from time to time until 4:30 p.m. (Toronto Time) 8 August 2006 and to the extent that they are not exercised on or before the 8 August 2006, they shall lapse.

## 6. Summary of the Articles of Amalgamation and By-Laws of the Company

- 6.1 On 12 February 2002, the articles of amalgamation (the “Articles”) and the by-laws (the “By-laws”) of the Company were filed with the Yukon Registrar of Corporations and became effective. The Articles and By-Laws contain, *inter alia*, the following provisions:

(i) *Voting*

The registered holders of the Common Shares are entitled to receive notice of and to attend and vote at all meetings of the members of the Company and each Common Share confers the right to one vote in person or by proxy at all meetings of the members of the Company.

(ii) *Dividends*

Subject to the Yukon Act, which imposes a test of solvency before dividends can be declared, the board of directors have the power to declare and pay dividends. A dividend may be paid by issuing fully paid common shares and, subject to meeting a solvency test, the Company may pay a dividend in cash or in specie (in the form of assets).

(iii) *Distribution of Assets*

The rights of the holders of the Common Shares are equal in all respects and include the rights, subject to the rights, privileges, restrictions and conditions attaching to any other class of share of the Company (if any), to receive the remaining property of the Company upon dissolution.

(iv) *Changes to share capital*

Subject to obtaining shareholder approval by way of a special resolution (as defined in the Yukon Act) the Articles may be amended to:

- (i) create new classes of shares;
- (ii) change the designation of all or any of its share capital, and add, change or remove any rights privileges restrictions and conditions including rights to accrued divided in respect of all or any of its share capital, whether issued or unissued;
- (iii) change the share capital of any class or series whether issued or unissued into a different number of shares of the same class or series or into the same or a different number of shares of other classes or series; and
- (iv) divide a class of shares, whether issued unissued into series and fix the number of shares in each series and the rights privileges, restrictions and conditions of that series.

(v) *Transfer of shares*

Common Shares may be transferred in the form of a transfer endorsement on the security certificates issued in respect of the Common Shares or in any form of transfer approved by the transfer agents of the Company. The shares of the Company are freely transferable. There are no restrictions on transfer contained in the Company's constitutional documents.

(vi) *Borrowing Power*

Pursuant to the Bylaws and the Yukon Act, the borrowing power of the Board includes the ability to:

- borrow money upon the credit of the Company;
- issue, sell or pledge debt obligations of the Company; and
- charge, mortgage, hypothecate, pledge all or any currently owned or subsequently acquired real or personal, movable or immovable, property and undertaking of the Company, including book debts, rights, powers, franchises and undertakings to secure any obligations or any money borrowed or other debt or liability of the Company.

(vii) *Objects*

There is no requirement under the Yukon Act for a company to set out its objects in its constitutional documents, and therefore, there are no objects of the Company contained in the Company's constitutional documents. The Company has, under the Yukon Act, the capacity of an individual.

(viii) *Number of Directors*

The number of Directors is set at a minimum of 3 and a maximum of 15.

(ix) *Director's Interests in Contracts*

Director who is a party to a material contract or proposed material contract with the Company, or is a director or has a material interest in any person who is a party to a material contract or proposed material contract with the Company, is required to disclose in writing to the Company or request to have entered in the minutes of meetings of the Directors the nature and extent of his interest.

A Director having a material interest in a material contract or proposed material contract with the Company cannot vote on any resolution to approve the contract unless the contract is:

- (i) an arrangement by way of security for money lent to or obligations undertaken by him, or by a body corporate in which he has an interest, for the benefit of the Company or affiliate;
- (ii) a contract relating primarily to his remuneration as a director, officer, employee or agent of the Company or an affiliate;
- (iii) a contract for indemnity or insurance; or

(iv) a contract with an affiliate.

Subject to a solvency test imposed by the Yukon Act, the Company may give financial assistance by means of a loan, guarantee or otherwise to:

- (i) any person on account of expenditures incurred or to be incurred on behalf of the Company; and
- (ii) to employees of the Company or any of its affiliates to enable or assist them to purchase accommodation; or
- (iii) in accordance with a share purchase or option scheme.

The fact that a person is a Director will not prevent him from being provided with such financial assistance if he would otherwise qualify for it.

(x) *Directors' remuneration*

The Directors have the authority to fix the remuneration of the Directors, officers and employees and in exercising this authority, and all other powers and authorities, the Directors are required to act honestly and in good faith bearing in mind the best interests of the Company and exercising the care diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(xi) *Redemption*

The Common Shares are not redeemable.

## 7. Directors' and other interests

7.1 The Directors' interests set out below have been determined, as required by the AIM Rules, by reference to the UK Companies Act. It should be noted however, that the Company, as a company incorporated in Canada, is not subject to the UK Companies Act.

7.2 The interests of the Directors and the persons connected with them (within the meaning of section 346 of the UK Companies Act) in Common Shares as at the date of this document and immediately following Admission all of which are beneficial, are and will be as follows:

<u>Director Shareholder</u>	<u>Common Shares</u>	<u>% of Issued and outstanding Common Shares</u>
Anthony Patrick Shearer . . . . .	631,667	1.46
Christopher John Clark <sup>(1)</sup> . . . . .	1,508,083	3.49
Michael Rex Schwabe <sup>(2)</sup> . . . . .	1,018,582	2.35
Roger David Morton . . . . .	42,000	0.10
John Christopher Morris . . . . .	370,000	0.86

(1) Christopher Clark's interest in Common Shares includes 1,412,083 Common Shares held by Financiera Darwells S.A. a company in which Christopher Clark has a direct interest.

(2) The 1,018,582 Common Shares are held by Melstar Investments S.A. a company in which Michael Schwabe has a direct interest.

- 7.3 The interests of the Directors and the persons connected with them (within the meaning of section 346 of the Companies Act) in warrants as at the date of this document and immediately following Admission all of which are beneficial, are and will be as follows:

<u>Director Shareholder</u>	<u>Number of Common Shares under warrant</u>	<u>Warrant Exercise Price (C\$)</u>	<u>Issue date</u>	<u>Expiry date</u>
Anthony Patrick Shearer . .	40,000	3.75	21 October 2003	21 April 2005
Christopher John Clark . . .	None	N/A	N/A	N/A
Michael Rex Schwabe . . . .	None	N/A	N/A	N/A
Roger David Morton . . . .	None	N/A	N/A	N/A
John Christopher Morris . .	None	N/A	N/A	N/A

- 7.4 The interests of the Directors and of the persons connected with them (within the meaning of section 346 of the Companies Act) in Options as at the date of this document all of which are beneficial, are and will be as follows:

<u>Director Shareholder</u>	<u>Number of Common Shares under option</u>	<u>Option Exercise Price (C\$)</u>	<u>Issue date</u>	<u>Expiry date</u>
Anthony Patrick Shearer . . . . .	200,000	0.40	11 February 2002	11 February 2007
Christopher John Clark . . . . .	500,000	1.50	3 September 2003	3 September 2008
Michael Rex Schwabe . .	275,000	0.40/1.50	11 Feb 2002/3 Sep 2003	11 Feb 2007/3 Sep 2008
Roger David Morton . .	110,000	0.40	11 February 2002	11 February 2007
John Christopher Morris . . . . .	150,000	1.00	20 September 2002	20 September 2007

- 7.5 Save as disclosed above, there are no persons, so far as the Company is aware, who are or will be immediately following Admission interested, directly or indirectly, in 3 per cent. or more of the Company's issued share capital, nor, so far as the Company is aware, are there any persons who at the date of this document or immediately following Admission, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

- 7.6 Save as disclosed in this document, no Director is or has been interested in any transactions which are or were unusual in their nature or conditions or significant to the business of the Company or the Group during the current or immediately preceding financial year or which were effected during any earlier financial year and remain in any respect outstanding or unperformed.

- 7.7 Disclosure of interests in shares and certain other shareholder obligations

The definition of "insider" provided by the applicable Canadian securities law includes the following:

- (i) every Director or senior officer;
- (ii) every subsidiary of the Company;
- (iii) any person or company that beneficially owns, directly or indirectly, voting securities of the Company and/or exercises control or direction over voting securities of the Company where such securities carry more than 10 per cent., of the voting rights attached to all issued securities;
- (iv) every director or senior officer of (ii) or (iii), above, and
- (v) the Company itself, if it acquires securities of its own issue which are not cancelled.

The securities laws of Canada applicable to the Company regulate the trading of securities by insiders by requiring any person or company who becomes an "insider" of the Company to file a report with the applicable securities commissions to disclose any direct or indirect beneficial ownership of or control or direction over securities of the Company.

In addition, each time the “insider” acquires, disposes, exercises or otherwise trades securities of the Company, the insider is required to file a subsequent insider report within 10 days of each trade for filing with each of the applicable securities commissions.

In respect of future acquisitions of securities of the Company, there is a requirement imposed upon those persons who hold 10 per cent. or more of either the voting or equity securities of the Company, or securities convertible into voting or equity securities to disclose any future acquisitions of such securities where the acquisition constitutes 2 per cent. of the issued and outstanding securities of the Company. In such case, the insider acquiring the securities must immediately issue a press release and then must file a report with the applicable securities commission within two days of making such acquisition.

This requirement impacts not only the insiders of the Company but also those persons who do not at present hold 10 per cent. of the Common Shares in issue, but who own a sufficient number of convertible securities, which if exercised, would result in them holding 10 per cent. of the Common Shares in issue. This provision also applies to any other person who acquires 10 per cent. or more of such securities.

“Control persons” of the Company are subject to both additional disclosure requirements and restrictions on trading. A “control person” is defined in the applicable Canadian securities laws as any person or company that holds or is one of a combination of persons or companies that holds a sufficient number of securities of an issuer as to affect materially the control of that issuer, or more than, 20 per cent. of the outstanding voting securities of an issuer where there is evidence showing that the holding of those securities does not affect materially the control of that issuer.

Sales from the holdings of a control person will constitute a distribution requiring a prospectus, a prospectus exemption or compliance with provisions of the applicable securities legislation particular to control persons. These special provisions applicable to control require that prior to any disposition of securities by a control person, they must, at least 7 days and not more than 14 days before such trade, provide a notice of intention to distribute to the applicable securities commission. As part of the notice, they will be required to make a declaration that they know of no material change in the affairs of the Company that has not been generally disclosed.

7.8 Save as set out in paragraphs 7.2, 7.3 and 7.4 above, none of the Directors has any interest in the share capital of any company in the Group.

7.9 It is anticipated that each of the Executive Directors shall enter into employment agreements with the Group (“Service Agreements”). Pursuant to a proposed employment agreement with one of the subsidiaries of the Company, Christopher Clark shall receive a base monthly salary of US\$ 5,000 and shall be entitled to participate in the Stock Option Plan grants of options, the number of which shall be equal to 0.3% of the Common Shares issued and outstanding at each year end. On termination by the Company without cause or by Christopher Clark for good reason, Christopher Clark shall be entitled to a monthly salary for the time remaining from date of termination to retirement (65 years of age) but such payment shall not exceed a 24 month salary entitlement.

Michael Schwabe, pursuant to a proposed employment agreement with one of the subsidiaries of the Company, shall have the same rights and entitlement set forth above with the exception of the entitlement to participate in the Stock Option Plan which participation shall be determined by the Board annually based on performance.

7.10 The appointment of the non-executive directors Roger Morton, John Morris and Tony Shearer are confirmed at each annual general meeting of shareholders of the Company. Pursuant to Board resolution Roger Morton and John Morris receive C\$ 20,000 annually as directors’ fees. Tony Shearer has renounced his entitlement to this fee.

7.11 Save as disclosed, there are no existing or proposed service agreements between a Director and the Company (including its subsidiaries) with a notice or contract period of one year or more, or containing provisions for pre-determining compensation on termination of an amount which equals or exceeds one year’s salary and benefits in kind.

- 7.12 The total aggregate remuneration paid to the Directors for the year ended 31 May 2004 was C\$ 258,237 including C\$ 217,494 paid to entities related to the Directors for the same period. In addition, options to the value of C\$ 441,208 were granted to the Executive Directors for the same period. It is estimated that the total aggregate remuneration, including benefits in kind (other than Options), to be paid to the Directors in the current financial year under the arrangements currently in force will not exceed C\$ 400,000. In addition there will be an entitlement to participate in new executive Options.
- 7.13 At the time of joining the Board, Directors will be considered for the grant of stock options at the discretion of the Board. There is no entitlement to such options and the grant of future options to the Directors is entirely at the discretion of the Board.
- 7.14 No entities related to Directors have provided consultancy services to members of the Group during the year ended 31 May 2004.
- 7.15 In addition to their directorships of members of the Group the Directors have held the following directorships or been partners in the following partnerships during the five years preceding the date of this document:

<u>Name</u>	<u>Current directorships or partnerships</u>	<u>Former or past directorships or partnerships</u>
Anthony Patrick Shearer . . .	Singer & Friedlander Group PLC Singer & Friedlander Investment Management Holdings Ltd Singer & Friedlander Investment Management Ltd Singer & Friedlander (Isle of Man) Holdings Ltd Singer & Friedlander Holdings Ltd Singer & Friedlander Ltd Singer & Friedlander Quest Ltd Singer & Friedlander Securities Ltd Singer & Friedlander Properties Plc Clarke London Ltd Ancomass Ltd Brook's 69 Holland Road Ltd Packwood Haugh School Ltd Tony Shearer Enterprises Ltd	Rugby School Governing Body Rugby School Enterprises Ltd Rugby School Life and Pension Scheme for Non-Teaching Staff (1973) Apac Minerals Ltd Britannic Retirement Solutions Ltd Updata plc (formerly Updata Software plc) PlanetRecruit Limited Finlaw 327 Limited Old Mutual Life Assurance Company Limited Old Mutual Fund Managers Limited Old Mutual Fund Managers (Ireland) Limited Old Mutual International (Ireland) Limited Old Mutual International Fund Managers (Isle of Man) Limited Old Mutual International (Isle of Man) Limited Old Mutual International (Guernsey) Limited Old Mutual Fund Managers (Guernsey) Limited Old Mutual International Services Limited Old Mutual International Marketing Services Limited Finexco International Limited Finexco Europe SA Fairbairn Investments (No 2) Limited (before 14/3/2000, Old Mutual Group (UK) Limited) OMLA Holdings Limited Providence Capitol Mortgage Services Limited Providence Capitol Home Loans Limited Old Mutual Portfolio Managers Limited myval.com plc Greenfield Ventures plc (formerly Limited)
Christopher John Clark . . .	None	None
Michael Rex Schwabe . . . .	None	None

<u>Name</u>	<u>Current directorships or partnerships</u>	<u>Former or past directorships or partnerships</u>
Roger David Morton . . . . .	Brazauro Resources Corp Brazilian Diamonds Ltd Consolidated Global Diamond Corp Leeward Capital Corp Sola Resource Corp Tres-Or Resources Ltd True North Gems Inc	Black Swan Gold Mines Ltd Black Swan Resources Ltd Consolidated PPM Development Corp Mindoro Resources Inc New Blue Ribbon Resources Ltd Techsite Strategies Corp
John Christopher Morris . . .	Chaco Resources Plc Gold Mines of Sardinia Pty Ltd	None

7.16 Save as disclosed in this document, no Director has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, any member of the Group or which are proposed to be so acquired, disposed of or leased.

7.17 None of the Directors has:

- (i) any unspent convictions in relation to indictable offences;
- (ii) ever been declared bankrupt or been the subject of an individual voluntary arrangement;
- (iii) ever been a director of a company which, while he was a director or within 12 months after his ceasing to be a director, had a receiver appointed, entered into liquidation, entered into administration, entered into a voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors;
- (iv) ever been a partner in a partnership which, while he was a partner or within 12 months after he ceasing to be a partner, entered into compulsory liquidation, administration or a partnership voluntary arrangement;
- (v) owned, or been a partner in a partnership which owned, any asset which, while he owned that asset, or while he or she was a partner or within 12 months after him or her ceasing to be a partner in the partnership which owned that asset, entered into receivership;
- (vi) been the subject of any public criticism by any statutory or regulatory authority (including recognised professional bodies); or
- (vii) been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7.18 Save as disclosed in this document, no person (other than a professional adviser referred to in this document or trade suppliers dealing with members of the Group) has:

- (a) received, directly or indirectly, from any member of the Group within the 12 months preceding the Company's application for Admission; or
- (b) entered into any contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from any member of the Group on or after Admission any of the following:
  - (i) fees totalling £10,000 or more;
  - (ii) Common Shares or any other securities in the Company with a value of £10,000 or more; or
  - (iii) any other benefit with a value of £10,000 or more at the date of Admission.

## **8. Related Party Transactions**

8.1 In the year ended 31 May 2004 the Company provided loans of US\$ 39,497 to certain employees in order that they could provide the guarantees to the Uruguayan government in support of the company's prospecting and exploration activities. Details of the guarantees are set out in paragraph 9.2.6.

8.2 In the year ended 31 May 2004 the Company paid US\$ 30,472 in directors fees.

- 8.3 The Company pays US\$ 500 per month to Christopher Clark, a director and officer of the Company, for the rental of certain premises and as a fee for premises pledged as guarantees required for the granting of certain mining titles.
- 8.4 In the year ended 31 May 2004 a non-executive director of the Company, Tony Shearer, subscribed for 40,000 units at a price of C\$ 2.85 per unit, with each unit being comprised of one common share and one warrant. Each warrant is exercisable into one additional common share upon payment of the exercise price of C\$ 3.75 on or before 21 April 2005. Further details of exercise rights of the warrants are set forth in paragraph 5.1 of this document.

## 9. Material Contracts

The following contracts have been entered into, *inter alia*, by companies comprised within the Group otherwise than in the ordinary course of business: (i) in the two years immediately preceding the date of this document and which are or may be material and (ii) otherwise than in the two years immediately preceding the date of this document and which may contain provisions which are material to the Group at the date of this document:

### 9.1 *Nominated adviser and broker agreement*

A nominated adviser and broker agreement dated 28 July 2004 and made between (1) the Company and (2) Durlacher pursuant to which the Company has appointed Durlacher to act as nominated adviser and broker to the Company for the purposes of the AIM Rules both in connection with the Admission and on an ongoing basis. The Company has agreed to pay Durlacher a corporate finance fee for its services in connection with the Admission and a retainer in connection with its ongoing role as nominated adviser and broker under this agreement. The agreement contains certain indemnities given by the Company and the Directors to Durlacher. The agreement is subject to termination on 3 months' prior written notice by either the Company or Durlacher.

### 9.2 *Additional Material Contracts*

#### 9.2.1 *Minera San Gregorio S.A.*

On 9 October 2003 the Company entered into an agreement with Crystallex International Corporation ("CIC") to purchase all of the shares of Minera San Gregorio S.A., Glendora S.A., Brimol S.A., Bolir S.A., Montemura S.A., Dalvan S.A ("MSG"), ("the Crystallex Agreement") for cash consideration ("the Purchase Price") of US\$ 2,000,000, less the amount ("Reduction") of any Undisclosed Liabilities revealed in the 12 month period subsequent to 1 October 2003 and which are the results of events which occurred prior to Closing. Pursuant to the Crystallex Agreement a partial payment of US\$ 1,000,000 of the Purchase Price was paid 6 months from the date of close in April 2004, and the balance of the Purchase Price was due in October 2004 if no Reduction notice was served by the Company. To secure the purchase price, the Company issued a pledge agreement and a convertible debenture. The convertible debenture is in the amount of the Purchase Price and is convertible into Common Shares in the event that the Company defaults in making the Purchase Price in cash payments within the specified dates. As the Company is not in default of its payment, the conversion feature has not been triggered. The convertible debenture is convertible at one share equal to the weighted average price trading price for the 5 days prior to the date of conversion. The Company additionally paid a hedge liability of MSG in the amount of US\$ 2,759,321.

On 15 October 2004 the Company issued a Reduction Notice pursuant to the Crystallex Agreement to reduce the Purchase Price by US\$ 500,000. On 1 November 2004, Crystallex issued a notice disputing the reduction and subsequently paid Crystallex an additional US\$ 150,000. The parties are currently negotiating a resolution and agreement upon the amount of the balance of the Reduction.

#### 9.2.2 *Agreement with Ermel S.A.*

On 8 December 2003, Ermel S.A. ("Ermel"), IMHL, the Company, Triselco S.A. and Loryser S.A. ("Loryser") entered into an agreement under which Loryser acquired Ermel's interests in the concessions (as defined in the agreement). Ermel is entitled to be paid a Net Profit Interest (as defined in the agreement) equivalent to 10% per annum of the net profits derived by Loryser from the gold produced from the assigned concessions. The Net Profit Interest is payable within 45 days of the date of calculation which is the last day of the relevant half year.

### 9.2.3 Agreement with Macquarie Bank

On 8 August 2004, the Company entered into a secured US\$ 2,000,000 interim working capital facility with Macquarie Bank Limited. In conjunction with the interim loan facility the Company entered into a contract to forward sell 10,000 ounces of gold on a spot deferred basis at US\$ 388.50 per ounce. Subsequently, the Company received an offer letter from Macquarie Bank dated 6 October 2004 to replace the working capital facility with a secured financing facility of US\$ 6,500,000. This facility will provide US\$ 1,500,000 for environmental bonds and US\$ 5,000,000 for working capital needs. The facility will bear interest at a rate of Libor plus 2% and is secured by a general floating charge over all of the Company's assets

The Interim Loan and Letter of Credit Facility were documented under an Interim Loan and Letter of Credit Facility Agreement, a Master Financing Deed and a Gold Hedging Facility Agreement.

#### 9.2.3.1 Deed of Variation

On 8 December 2004 the Company, IHML, Triselco S.A., Loryser S.A., Minera San Gregoria S.A., Glendora S.A. and Dalvan S.A. entered into a Deed of Variation with Macquarie Bank Limited ("MBL") which amended the above Agreements and renamed them. The Interim Loan and Letter of Credit Facility Agreement were amended and renamed as the Working Capital Facility Agreement; and the Bank Guarantee Facility Agreement respectively.

The Gold Hedging Facility Agreement and the Master Financing Deed were also amended.

IMHL, UME and the subsidiary companies agreed that all the terms of the Agreements as amended would apply to payment of amounts originally drawn, performance bonds originally provided and hedging originally transacted under the original Agreements. Any rights or obligations arising under the original agreements before the date of the Deed of Variation are preserved unaffected.

#### 9.2.3.2 Master Financing Deed

On 8 December 2004 the Company, IHML, Triselco S.A., Loryser S.A., Minera San Gregoria S.A., Glendora S.A. and Dalvan S.A. entered into a Master Financing Deed with MBL. This is the base document which applies to each of the other Facility documents. The Master Financing Deed is deemed to be incorporated in the Working Capital Facility, the Gold Hedging Facility and the Bank Guarantee Facility. Subject to the terms of the Master Financing Deed, MBL agreed to make the facilities available to IMHL.

Interest is payable on outstanding monies at the Reference Rate (as specified in the Working Capital Facility Agreement) plus the margin of 2% per annum, unless otherwise provided. Overdue amounts are charged at an additional 2% per annum.

MBL's obligation to make or continue to make the facilities available is subject to conditions which are set out in the Deed of Variation. The Covenantors guarantee the payment of all secured money and the obligations of IMHL under each of the Transaction Documents (being all the documents comprised in the Facility).

Corporate and general representations and warranties are given by the IMHL and Covenantors to MBL. General business undertakings are given by the IMHL and the Covenantors. Restrictions exist on making, incurring or repaying other financial accommodation to any person, and including on funds flow between group companies, by way of making or repaying shareholder loans except in certain limited circumstances.

The parties agree not to commit more than 80% of total budgeted recoverable gold in proven and Probable Reserves in the MCGO in any financing, forward selling or other financial accommodation without MBL's consent. MBL may audit reserves.

IMHL must establish offshore a US dollar Proceeds Account and a Gold Account with a Refinery offshore, (all such terms as defined in the Master Financing Deed) in which all refined gold from the MCGO reserves will be credited.

Events of default apply to IMHL, the Covenantors and other subsidiaries, and include failure to pay monies when due under any Transaction Document, other breach of Transaction Documents, failure to comply with the Gold Hedging Facility obligations, or failing to deliver and any

commodity contract with MBL, failure to meet other financial obligations, reduction of interest in the MCGO except for relinquishment of exploration rights in the ordinary course of operations, political risk insurance events, Material Adverse Events (as defined in the Master Financing Deed).

Events of default also include production falling below 80% of Annual Operating Budget level in any consecutive 3 month period or costs per ounce of production exceeding 120% of costs as budgeted in the Annual Operating Budget.

Certain rectification periods apply before MBL's rights may be exercised if an Event of Default occurs. Subject to the rectification periods provided in the Master Financing Deed, if an Event of Default occurs MBL may cancel all its obligations under the Transaction Documents and declare all monies due. Securities may be enforced, and an independent consultant may be appointed to review and report on the affairs of IMHL and the Covenantors.

MBL may exercise other rights under the various Transaction Documents upon the occurrence of an Event of Default, including closing out hedging contracts, the appointment of a receiver over all or any secured assets, and the realisation of secured assets.

#### 9.2.3.3 Working Capital Facility Agreement

On 8 December 2004 the Company, IHML, Triselco S.A., Loryser S.A., Minera San Gregoria S.A., Glendora S.A. and Dalvan S.A entered into a Working Capital Facility Agreement with MBL. This Agreement sets out the terms on which IMHL may request advances from MBL. The facility limit is US\$ 5,000,000 inclusive of capitalised interest. The first drawdown date is 31 December 2004. The conditions precedent of the Variation Deed must be satisfied, as must representations and warranties as at each Drawdown Date.

The facility terminates on 28 February 2006 unless otherwise agreed, or terminated earlier by MBL in accordance with the document. The purposes of the facility are to meet the working capital requirements of the MCGO, the project known as the Minas de Corrales Gold Operation in Uruguay.

Interest is payable on the basis of the Reference Rate which is the USD LIBOR rate and will apply for the duration of the selected interest period, plus a margin of 2%. Not later than 5 days before a proposed drawdown, the IMHL selects an interest period of 30, 60, 90 or 180 days. If no selection is made the interest period is 30 days.

The IMHL may prepay all or part of the Principal Outstanding (as defined in the Agreement) on 2 days prior written notice. Prepayment is without penalty. Interest accrued on any amount prepaid must be paid with the prepayment. Any of the facility converted under the warrants are deemed a prepayment.

The facility fees comprise warrants to acquire shares and the cash payment of US\$ 60,000. In consideration of MBL offering to make the facility available, UME has granted to MBL 250,000 Warrants to acquire the same number of shares.

The exercise price and other terms are set out in the Warrant Certificate attached to the Agreement. Each Purchase Warrant entitles the holder to acquire at a price of C\$ 3.75 per Common Share, one Common Share until 25 July 2006.

#### 9.2.3.4 Guarantee and indemnity

On 8 December 2004 the Company, IHML, Triselco S.A., Loryser S.A., Minera San Gregoria S.A., Glendora S.A. and Dalvan S.A entered into a Guarantee and Indemnity pursuant to which UME and each of the subsidiary Covenantors guarantee the payment of all "secured money" and the obligation of all the obligations of all relevant persons under the Transaction Documents. The Guarantors also guarantee the payment of damages suffered by MBL arising from any breach or wrongful termination of the Transaction Documents by any Relevant Person.

#### 9.2.3.5 Gold Hedging Facility Agreement

On 8 December 2004 the Company, IHML, Triselco S.A., Loryser S.A., Minera San Gregoria S.A., Glendora S.A. and Dalvan S.A entered into a Gold Hedging Facility Agreement. This Agreement

contains the general conditions which apply to any Contract for the sale or purchase of gold entered into between MBL and the Hedging Party, IMHL. The Covenantors are the subsidiaries of IMHL.

The terms of each individual Contract are as will be agreed by telephone by an authorised officer of MBL and IMHL. MBL will then confirm the details of each Contract in writing.

MBL has issued a confirmation for the Hedging of a total of 50,000 ounces.

MBL may close out any Contract if an Event of Default occurs under the Master Financing Deed, and the relevant rectification period has expired, or if a "Close Out Event" occurs. Close Out Events are listed and include a major disruption in the World Gold Markets, an event which makes it unlawful or contrary to the requirement of any regulatory authority to carry out a Contract, or any other event which in MBL's opinion will have the effect of MBL being unable to trade or price gold or currency in world markets.

The Contract contains certain relief for force majeure events. If MBL is satisfied that the event will be remedied within 90 days it will consent to the Hedging Party either purchasing gold from MBL to satisfy delivery obligations, or to make the unfilled delivery obligation the subject of a Forward Contract at a price determined by MBL. If MBL is not so satisfied then the Hedging Party must purchase gold from MBL. IMHL may request MBL to Close Out Contracts. In any Close Out Event the net Close Out Amount in relation to the Contracts is determined according to standard formulae used by MBL and the resulting sum is payable by one party to the other.

#### 9.2.3.6 Bank Guarantee Facility Agreement

On 8 December 2004 the Company, IHML, Triselco S.A., Loryser S.A., Minera San Gregoria S.A., Glendora S.A. and Dalvan S.A entered into a Bank Guarantee Facility Agreement for the purpose of enabling IMHL to provide Bank Guarantees to any entity agreed in writing by MBL in relation to IMHL or the Covenantors obligations with respect to the MCGO.

The term of the facility expires on 31 December 2006 unless otherwise agreed in writing between MBL and IMHL or on such earlier date as the facility is terminated. The facility limit, being the aggregate of the face amount of any Bank Guarantee plus Bank Guarantees outstanding, must not exceed the facility limit of US\$ 1,500,000.

The facility is subject to certain conditions precedent including those in the Variation Deed. IMHL is obliged to cash back or satisfy all Bank Guarantees outstanding by the Termination Date.(as defined in the Agreement) Any unpaid amounts due under the Guarantee, which includes any payment made by MBL under a Bank Guarantee, will bear interest as provided in the Master Financing Deed.

If an Event of Default occurs and the Rectification Period has expired or if IMHL is in default of any obligations to a Beneficiary of a Guarantee, then MBL retains the discretion to pay to the Beneficiary the face amount of any Guarantee(all such terms as defined in the Agreement)

If an Event of Default occurs and the Rectification Period has expired then MBL may cancel the facility and declare all moneys payable and to require IMHL to satisfy each Bank Guarantee and/or cash back the Bank Guarantees outstanding. IMHL indemnifies MBL against all losses and liabilities arising out any claim made under a Bank Guarantee.

- 9.2.4 On 5 August 2004, Loryser S.A. signed a sale and purchase agreement for the purchase of US\$ 6,349,247 in mine equipment with Komatsu Latin America Corporation ("Komatsu"). The equipment is being purchased on deferred payment terms with an initial payment of 25% paid in advance by means of a confirmed letter of credit, twelve monthly instalments equal to 15% and a final balloon payment of 60% 12 months from the date that equipment is assembled and ready to work. The Company will also be responsible for all assembly and mobilization costs estimated at US\$ 198,000. Interest on all balances outstanding accrues at the 90 day Libor rates plus 4% commencing the date that the machinery is assembled and ready for use. The equipment is to be supplied by Komatsu in separate deliveries and upon assembly of each delivery, Loryser S.A. will issue a promissory note to Komatsu equivalent to the balance of purchase price and will grant a pledge over the equipment to secure the payment of the balance of purchase price.

#### 9.2.5 Agreement with Joaquin Enrique Sarroca

Pursuant to an agreement dated 22 November 2004 between IMHL, Glendora S.A. and Enrique Sarroca; Enrique Sarroca sold his entire shareholding in Glendora to IMHL for US\$ 179,000 (of which US\$ 75,000 was payable on execution of the agreement and US\$ 50,000 of which is to be paid on 30 April 2005) together with an additional US\$ 54,000 to be paid in monthly instalments of US\$ 1,500 for 36 months following execution in consideration of Mr Sarroca assigning the Sarroca Royalty to Glendora.

9.2.6 The Company has agreed to pay a guarantee fee to certain employees, officers and directors, who had provided personal assets as guarantees for environmental rehabilitation requirements resulting from exploration or mining activities which are required under Uruguayan mining legislation. The fee is paid at rates advantageous to the Company and is based on the amount of the guarantee negotiated on a case by case basis. The total guarantees provided at 31 May 2004 were approximately US\$ 823,937 which relate to potential site restoration responsibilities associated with exploration activities.

9.2.7 In October 2003 following the acquisition of the San Gregorio Mine as set out in 9.2.1 above the Company entered in to a rehabilitation guarantee with the Hydrograph National Direction of the Uruguayan Ministry of Transport in connection with the contingent obligation of Minera San Gregorio S.A. under the rehabilitation guarantee to restore the tailings dam at the San Gregorio mine in the sum of US\$ 1,500,000.

This guarantee is in turn supported by the sum of US\$ 1,500,000 which is held in escrow in the Canadian Imperial Bank of Commerce (“CIBC”). In October 2003, Citibank issued an irrevocable standby letter of credit for US\$ 1,500,000 (the “Letter of Credit”) to Banco Surinvest which is available for payment upon receipt of a written demand by CIBC from Banco Surinvest. The Letter of Credit expired on 22 October 2004 but has been automatically extended in accordance with its terms for one year and subsequent one year periods. At the date of this document the company’s current site restoration liability in respect of its exploration activities is not material.

9.2.8 The purchase warrant indenture referred to in paragraph 5.1 above.

9.2.9 The warrants issued to Macquarie Bank Limited referred to in paragraph 5.2 above.

#### 9.2.10 Orderly Marketing Agreement

Pursuant to an agreement dated 11 November 2004 between Christopher Clark, Financiera Darwells S.A., John Morris, Roger Morton, Michael Schwabe, Melstar Investments S.A., Anthony Shearer (“the Covenantors”) and Durlacher; the Covenantors undertook to Durlacher, save in certain limited circumstances, not to sell or otherwise dispose of any of their interests in Common Shares held by them respectively, without prior written consent of Durlacher, until the end of the 12 month period commencing on the date of Admission.

### 10. Compliance with Laws

Other than being referenced as a delinquent filer in respect of a form prescribed by Canadian securities regulations called an annual information form (“AIF”), to the best of the Directors’ knowledge, all applicable laws have been complied with by each and every Group Company. Newly imposed Canadian securities laws and regulations applicable to the Company, which came into effect 31 March 2004 (the “New Rules”), inter alia, stipulate that companies which are quoted upon the TSXV are no longer required to file an AIF. The New Rules also include a transition period to allow companies sufficient time to enable their compliance in the situations where the New Rules impose more onerous requirements. Management and counsel are of the view UME is not required to file an AIF as the New Rules do not impose more onerous requirements in respect of an AIF. Applicable regulatory bodies have agreed with this interpretation of the New Rules, but however are still requiring UME to file an AIF to be consistent as, previous to their discussions with UME, they have required other companies which are listed on the TSXV to file AIFs. No late fees are being applied to UME and the applicable regulatory bodies have confirmed that the status of a “delinquent filer” will be removed as soon as the AIF is filed by UME. UME anticipates filing the AIF prior to the end of December 2004.

## **11. Working Capital**

The Directors are of the opinion, having made due and careful enquiry, that the working capital available to the Company and the Group will be sufficient for its present requirements, that is for at least the next 12 months from the date of Admission.

## **12. Litigation**

No member of the Group is engaged in, nor has pending or threatened against it, any legal or arbitration proceedings which may have or have had during the 12 months prior to the publication of this document a significant effect on the financial position of the Group.

## **13. Taxation**

Shareholders who are in any doubt as to their tax position should consult their professional advisers immediately.

The following comments are intended as a general guide to the UK and Canadian tax treatment of the acquisition, ownership and disposal of Common Shares for persons who are the absolute beneficial owners of those shares. The comments are based on the law and understanding of the practice of tax authorities in those jurisdictions at the date of this document. This summary does not otherwise take into account or anticipate changes in the law, whether by way of judicial, governmental or legislative decision or action, nor does it take into account Canadian provincial or territorial tax legislation or tax legislation of countries other than the UK or Canada. The comments do not address all possible tax consequences relating to an investment in Common Shares and do not apply to certain categories of Shareholders, such as persons who hold shares in the course of carrying on business or in an adventure or concern in the nature of trade, Shareholders who do not hold their shares as capital property, within the meaning of the Canadian Income Tax Act (the “ITA”), Shareholders who hold their Common Shares through a partnership, Shareholders subject to specialized regimes under the ITA, such as tax shelter rules and rules applicable to financial institutions, traders or dealers, insurance companies, tax-exempt entities and holders of Options and warrants. This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder of shares. All persons are advised to obtain their own professional advice on the tax implications of acquiring, owning and/or disposing of shares.

### *13.1 United Kingdom Taxation*

The following paragraphs apply only to Shareholders resident for tax purposes in the UK. Shareholders who are resident or otherwise subject to taxation in a jurisdiction outside the UK should consult their own professional advisors immediately.

#### *Dividends*

The Company will not be required to withhold UK tax from dividends paid on the Common Shares.

If dividends on the Common Shares are paid or received through a paying or collecting agent in the UK such an agent is not required to withhold UK tax from those dividends. However, the Inland Revenue may obtain information about the savings income of individuals (such as dividends on Common Shares) from persons in the UK by or through whom such income is paid.

#### *Dividends—UK resident individuals*

Any holder of Common Shares who is resident in the UK, or who carries on a trade, profession or vocation in the UK to which the Common Shares are attributable, will generally be subject to UK income tax on income in respect of any dividends paid on the Common Shares. As these dividends are foreign income for the purposes of UK taxation, they are subject to a different tax regime from that applying to dividends received from UK companies. In particular, there will be no notional tax credit attaching to the dividends.

If the dividend has been subject to Canadian dividend withholding tax (“WHT”), or withholding tax imposed in other jurisdictions the amount of the dividend received plus the withholding tax will be included in the assessable income of the UK Shareholder. In these circumstances the Shareholder should be entitled to a credit for the foreign tax paid. The credit would be limited to the lesser of the WHT or the UK tax payable on the dividend. If the WHT exceeds the UK tax payable on the dividend, the excess is neither creditable nor repayable.

UK resident Shareholders may be able to claim a tax deduction for the foreign tax suffered if the foreign tax credits cannot be used.

#### *Dividends—UK resident companies*

Dividends paid to a UK resident company Shareholder will be assessable income of the Shareholder and subject to corporation tax accordingly to the extent that they come from a source outside of the UK.

If the dividend has been subject to WHT it should be treated as described above (i.e. the Shareholder should be taxed on the dividend inclusive of WHT suffered and credit for the WHT should be available up to the amount of UK corporation tax payable on the dividend. If the UK company shareholder is unable to use the foreign tax credits, for example, because of tax losses, it may be able to claim a tax deduction for the foreign tax paid).

#### *Non portfolio interest*

If a UK corporate shareholder has a non portfolio interest (at least 10 per cent of voting rights) in the Company, it may also be entitled to a credit for Canadian company tax (or certain other non-UK corporate taxes) paid on the underlying profits. However, the credit would be limited to the lesser of (a) the underlying tax and the WHT taken together and (b) the UK rate of tax payable by the Company; although an amount of any excess foreign tax suffered may be available for credit in the same or different accounting periods.

#### *Capital gains—UK resident individuals*

Any Shareholder who is resident or ordinarily resident in the UK in the relevant year of assessment, or who carries on a trade, profession or vocation in the UK to which the Common Shares are attributable, may be subject to UK tax on capital gains in respect of a disposal of Common Shares. In addition, a Shareholder who has previously been resident or ordinarily resident in the UK may in some cases be subject to UK tax on capital gains in respect of a disposal of shares on return to the UK within 5 years of such disposal.

In some circumstances a taxable capital gain may arise in both the UK and Canada (or another jurisdiction) on a disposal of shares. In these circumstances a tax credit or deduction may be available in respect of the non-UK tax against the UK tax liability arising from the disposal.

#### *Chargeable gains—UK resident companies*

Any UK resident corporate Shareholders may be subject to UK corporation tax on capital gains in respect of a disposal of Common Shares.

In some circumstances a chargeable gain may arise in both the UK and Canada (or another jurisdiction) on a disposal of shares. In these circumstances a tax credit or deduction may be available in respect of the non-UK tax against the UK tax liability arising from the disposal.

If a UK resident corporate Shareholder has a substantial interest (at least 10% of the Common Shares and certain other rights and interests) in the Company, a capital gain in respect of a disposal of Common Shares may be exempt from UK corporation tax if certain conditions are met. Shareholders should obtain their own professional advice in this regard.

#### *Inheritance Tax*

If any Shareholder is regarded as domiciled in the UK, inheritance tax may be payable in respect of the shares on the death of the Shareholder or on any gift (or disposal at an undervalue) of the Common Shares.

In the case of a Shareholder who is not regarded as domiciled in the UK for these purposes, no such UK inheritance tax will be payable if the Shares are not situated in the UK. The Shares may be regarded as situated in the UK for these purposes if they are registered on the Company's UK branch register.

#### *Stamp duty and stamp duty reserve tax*

The following comments do not apply to Common Shares issued or transferred into depositary or clearance arrangements, to which special rules apply.

Any instrument governing a transfer of, or any transfer of, Common Shares registered on a UK branch register will generally be subject to UK stamp duty or stamp duty reserve tax at the rate of 0.5 per cent. of the consideration for the transfer. UK stamp duty may arise on transfers of other Common Shares depending on the circumstances, such as whether the transfer instrument is executed in the UK or brought into the UK.

#### *Domicile and ordinary residence*

Any individual who owns shares and is resident or ordinarily resident in the UK, but who is not regarded as domiciled in the UK for tax purposes, may be subject to UK tax on income or capital gains tax as described above only to the extent that his income or disposal proceeds are treated as remitted to the UK. Any such individual is advised to obtain his own professional advice on the UK tax implications of the acquisition, ownership and disposal of Shares, including the implications of registration on the Company's UK branch Register.

Certain individuals owning Common Shares who are resident but not ordinarily resident in the UK for tax purposes may only be subject to UK tax on income to the extent that this income is remitted to the UK.

#### *Tax relief*

UK income tax, capital gains tax or corporation tax relief may be available to UK resident investors in Common Shares under schemes designed to provide relief for investments in unquoted trading companies. The conditions for these reliefs are complex and therefore, investors should obtain their own professional advice in this regard.

#### *Inland Revenue—business asset taper relief*

One of the reliefs referred to above is business asset taper relief, which may reduce a UK resident individual investor's capital gains tax liability in respect of a disposal of Common Shares. Below is a direct quote from the Inland Revenue who wrote to the Chairman of UME on 12 October 2004:

"I can confirm that a company would still be regarded as "unlisted" for business asset taper relief if its shares are traded on either the Toronto Venture Exchange or the UK Alternative Investment Market. It is not possible for me to make any general statement as to whether the share of UME Inc will qualify as a business asset because this can only be decided in relation to the circumstances of the individual investor concerned. There are also a number of other conditions that apply to the company."

## 13.2 *Canadian Taxation*

### *Canadian Residency*

In this section, "**Canadian resident**" means a person (which includes both individuals and corporations) resident in Canada for the purposes of ITA. "**Non-resident**" means those persons who are not resident in Canada for the purposes of the ITA. In certain circumstances, persons who would otherwise be factually resident in Canada may be considered non-residents due to the application to them of a tax treaty or convention to which Canada is a party.

Generally, a corporation is deemed to be resident in Canada if it was incorporated in Canada after April 26, 1965, unless deemed to be non-resident by virtue of a tax treaty.

### *Capital gains*

In general, proceeds of disposing of Common Shares will result in a capital gain or loss to a Shareholder. However, in some circumstances, including where there is a disposal of shares to the Company, the portion of the proceeds in excess of the paid up capital of the shares may be considered to be a dividend, rather than a capital gain.

#### Canadian resident shareholders

Generally, a Canadian resident Shareholder will incur a capital gain on the disposal of Common Shares to the extent that the consideration received on the disposal exceeds the adjusted cost base ("**ACB**") for tax purposes and reasonable expenses of disposition of the Common Shares. Canadian resident individual and corporate Shareholders will be required to include 50 per cent. of the capital gain in their taxable income in the taxation year in which the sale occurs.

A Shareholder will generally incur a capital loss on the disposal of Common Shares to the extent that the consideration on disposal is less than the ACB for tax purposes of the Common Shares plus the reasonable expenses of disposition. A Shareholder's allowable capital loss in a year will be 50 per cent. of the actual capital loss and may offset current year's taxable capital gains (consisting of 50 per cent. of actual capital gains arising from the disposition of other capital assets). The remaining allowable capital loss may be carried back to the preceding three taxation years or forward indefinitely to offset any net taxable capital gains incurred in those years, subject to certain restrictions on deductibility, including the acquisition of control rules for a corporate shareholder.

#### Non-residents of Canada

A Shareholder who is non-resident of Canada will generally not be subject to tax under the ITA in respect of a capital gain realised upon the disposition of Common Shares unless the shares represent "**taxable Canadian property**". In general, Common Shares of a corporation resident in Canada will constitute taxable Canadian property of a Shareholder at a particular time if they are not listed on a prescribed stock exchange, or, if at any time in the five years immediately preceding the disposition, 25 per cent or more of the issued shares of any class of the capital stock of the Company, which were shares listed on a prescribed stock exchange, were owned, either alone or together, by the non-resident Shareholder and persons with whom the non-resident Shareholder does not deal at arm's length, and in certain other circumstances.

In case of a Shareholder to whom Common Shares represent taxable Canadian property, capital gains on the disposition of such Common Shares may be exempt from Canadian taxation by virtue of a tax treaty concluded between Canada and the country in which the Shareholder is resident. Shareholders who are non-residents of Canada to whom the Common Shares represent taxable Canadian property prior to the disposition of the Common Shares would be required to inform the Canada Revenue Agency of the proposed disposition and obtain a Clearance Certificate in respect of the proposed disposition from the Canada Revenue Agency. If the non-resident Shareholder does not obtain such a Certificate, the purchaser of the Common Shares is required to withhold 25% of the gross purchase price and remit it to Canada Revenue Agency.

#### *Dividends*

The following discussion is based on the assumption that the Company is a taxable Canadian corporation for purposes for the ITA.

#### Canadian Resident Individual Shareholders

Dividends payable by the Company to Canadian resident individual Shareholders will be included in the Shareholders' income in the year the dividend is received. The actual amount of the dividend will be grossed up by 25 per cent. (the "**Gross-up**") to compute the taxable amount of the dividend.

A federal dividend tax credit of two-thirds of the Gross-up may be deducted from the taxpayer's basic federal tax.

#### Canadian Resident Corporate Shareholders

Dividends payable by the Company to Canadian resident corporate Shareholders will be included in their income in the year the dividend is received. The gross up provisions with respect to dividends paid to individuals do not apply to corporations. The corporate Shareholder may generally deduct the dividend received for the purpose of computing its taxable income.

Where dividends are payable by the Company to a corporate Shareholder that is a private corporation resident in Canada, the corporate Shareholder will generally pay Part IV tax equal to  $\frac{1}{3}$  of the dividend received provided it is not connected with the Company for the purposes of the ITA. Two corporations are connected for these purposes if the corporate Shareholder controls the Company or owns, at that time, more than 10 per cent. of the issued share capital (having fully voting rights under all circumstances) of the Company and shares of the capital stock of the Company having a fair market value of more than 10 per cent. of the fair market value of all the issued shares of the capital of the Company. This tax is generally refundable when the corporate Shareholder pays a dividend to its shareholders equal to the dividend it received from the Company.

## Non-Residents of Canada

Dividends paid or deemed to have been paid by the Company to a Shareholder who is a non-resident of Canada will generally be subject to Canadian withholding tax at the rate of 25 per cent. This rate may be reduced pursuant to a tax treaty between Canada and the country in which the Shareholder is resident.

## Alternative Minimum Tax

Individuals are subject to tax equal to the greater of the tax payable under the ITA without reference to the alternative minimum tax (“AMT”) and the amount of AMT payable. AMT is imposed at a rate of 16 per cent. on adjusted taxable income in excess of C\$ 40,000, which income is computed without deducting certain “**tax preference items**” and by including certain amounts not otherwise included in income. For example, for purposes of calculating adjusted taxable income 80 per cent. of capital gains are included in income, instead of the 50 per cent. used when calculating income under the ITA for other purposes. The extent to which an Individual’s tax liability will be increased by AMT depends, among other things, on the amount and sources of income and the nature and amount of deductions claimed by the Individual in computing taxable income. Generally, the excess of AMT over “**regular**” tax in a year can be carried forward for seven years and used to offset tax to the extent that regular tax exceeds AMT for that year.

## 14. Canadian Take-over Bid Rules

The Company is a Canadian corporation subsisting pursuant to the Yukon Act and has its registered office in Whitehorse, Yukon Territory and its head office in Montevideo, Uruguay. Accordingly, transactions in the Company’s Common Shares will not be subject to the provisions of the Code. Instead, the Company is regulated by the applicable Canadian corporate and securities laws.

In Canada, securities law is a matter of provincial jurisdiction and as a result each of the provinces as well as the Yukon Territory, the Northwest Territories and Nunavut has securities legislation.

A take-over bid made to persons in Canada will be subject to the take-over bid rules of the legislation of each province or territory in which there is a person to whom an offer is made as part of the take-over bid. Generally speaking, the take-over bid rules of the various Canadian jurisdictions define “take-over bid” as an offer to acquire outstanding voting or equity securities of a class, which when added to the offeror’s existing securities, will constitute in the aggregate 20 per cent. or more of the outstanding securities of that class. The take-over bids rules then distinguish between “formal bids” and “exempt bids”. A take-over bid is an “exempt bid” if it is deemed to be exempt, under the applicable securities legislation, from the formal bid requirements of that legislation. A take-over bid will be an “exempt bid” if, for example, among other things, the bid is not for more than 5 per cent. of the outstanding securities of a class of the issuer, or purchases are made from not more than five persons in aggregate or there is no published market for the securities subject to the bid. If the take-over bid is not an “exempt bid” then it is a “formal bid”. The rules governing “formal bids” require that the offer be made to all security holders of the target company then in the jurisdiction governed by the applicable securities legislation, a take-over bid circular (in prescribed form) to be sent to all security holders in that jurisdiction, security holders be given at least 35 days to deposit securities pursuant to the bid and the directors of the target deliver a directors’ circular to security holders within fifteen days of the date of the bid, making a recommendation to security holders to accept or reject the bid.

As part of the take-over bid rules, securities laws applicable to the Company impose an early warning reporting requirement whereby a person must promptly report its acquisition, other than pursuant to a formal bid, of beneficial ownership of, or control to direction over, any voting or equity securities of any class or securities convertible into voting or equity securities of any class, in each case of a reporting issuer, that together with that person’s existing shareholdings of that class of securities, would constitute 10 per cent. or more of the outstanding securities of that class. Such person reports the acquisition by immediately filing a press release containing certain prescribed information and filing a report with the applicable regulatory authority containing similar information. Each such person must also report, in the same way, each acquisition by it or any person acting jointly or in concert with it, of the beneficial ownership of, or securities convertible into, an additional 2 per cent. or more of the outstanding securities of the class. Eligible institutional investors are subject to a different early warning reporting regime.

## **15. General**

- 15.1 The Company is a reporting issuer, under the securities legislation of each of British Columbia, Alberta, Ontario and Quebec and, as such is subject to regular reporting and disclosure obligations under the laws of those jurisdictions. As the Common Shares are listed on the TSXV, the Company is also subject to the timely disclosure policy of that exchange. These laws and policy include an obligation to disclose any (a) change in the business, operations, assets or ownership of the Company that would reasonably be expected to have a significant effect on the market price or value of any of the securities of the Company, including a decision to implement that change made by (i) senior management who believe that confirmation of the decision by the directors is probable or (ii) the directors of the Company; and (b) with respect to any securities, any fact that significantly affects, or could reasonably be expected to significantly affect, the market price or value of the securities.
- 15.2 As a reporting issuer, the Company has issued this document in accordance with the AIM Rules. Each of the British Columbia, Alberta, Ontario and Quebec securities regulators maintain files containing publicly disclosed information about the Company. Copies of documents filed by the Company may be obtained from the internet at *www.sedar.com* under the Company's company profile.
- 15.3 The Company's financial year end is 31 May.
- 15.4 The auditors of the Company are BDO Dunwoody LLP.
- 15.5 Save as disclosed in this document there has been no significant change in the financial or trading position of the Company since 31 May 2004, being the latest date to which audited accounts have been prepared by the Group and there are no significant investments in progress.
- 15.6 RSG has given and not withdrawn its written consent to the issue of this document with the inclusion of its reports in Part II of this document and accept responsibility for their report for the purposes of Regulation 13(1)(d) The Public Offers of Securities Regulations 1995, the reference to such reports, and to its name, in such forms and contexts in which they appear.
- 15.7 Deloitte & Touche LLP has given and not withdrawn their written consent to the inclusion of their reports in Part IV of this document and accept responsibility for their reports for the purposes of regulation 45(2)(b)(iii) of Schedule 1 to The Public Offers of Securities Regulations 1995.
- 15.8 Durlacher has given and not withdrawn its written consent to the issue of this document with the inclusion herein to its name, in such forms and contexts in which it appears.
- 15.9 The Directors are unaware of any exceptional factors, save as disclosed in this document, which have influenced the Group's recent activities.
- 15.10 Save as disclosed in this document, there are no patents or intellectual property rights or licences or particular contracts that are of fundamental importance to the business of the Company.

## **16. Availability of Admission Document**

Copies of this admission document are freely available to the public from the offices of Durlacher at Moorgate Hall, 155 Moorgate, London EC2M 6XB during normal business hours on a weekday (Saturdays, Sundays and public holidays excepted), for a period of one month following Admission.

9 December 2004.







