

El Transito Gold Project

Depto. Valle, Honduras

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Introduction

The El Transito gold property qualifies as one of the most important gold projects currently existing in Honduras.

Its attractive features are: Defined gold resources, uncomplicated metallurgy, very favourable mining characteristics, excellent access and infrastructure and existing data base to commence technical and financial feasibility.

The project is covered by a Mining Concession granting its owner(s) mining rights subject to the standard regulations governing mining operations in Honduras.

Previous exploration and development was undertaken by Rosario Mining, Placer Development and Ocote Mining. All available information is summarized in this report. By confirmation (Constantia) issued by Defomin, Gwendolyn Pekarik is the reaffirmed Concession holder.

Summary

Gold mineralization at El Transito occurs along a zone measuring 1 km in length and is open to depth. Several ore bodies within the zone, designated sheets, have been identified by drilling and surface work.

Mineable bodies have been defined and reserves are calculated. Mining will be done by open-pit, followed by underground extraction once open-pit limits are reached.

Bulk samples of the ore have been submitted to a recognized metallurgical laboratory and the appropriate tests were performed. Recoveries of 95% for gold and 87% for silver have been determined using flotation and cyanide recovery processes.

Reconnaissance sampling indicates the potential for additional gold mineralization on the El Transito Mining- and Exploration Concession.

Location, Access and Infrastructure

Access to the property is by national highway approximately 115 km from the capital, Tegucigalpa. The last two kilometers are all weather gravel road to the current mine site.

Electric power to the mine site is supplied from the national grid and water supply is currently pumped from a sump in the main cross cut. There appears to be sufficient water to service mining operations and the nearby townsite.

Physiography and Climate

Located in the southern low lands of Honduras, the land is essentially flat with some low level ridges and hillocks. Soil cover is rubble intermixed with leached soils that support thorny shrubs and minor stands of trees. The original vegetation has been destroyed by the common slash and burn culture.

The climate is tropical with a dry season from May to October and a rainy season for the rest of the year. The rains usually occur as intermittent heavy cloud bursts. During the dry season, the country side assumes a dessert-like character.

Geology

The property is underlain by the Middle Tertiary Matagalpa Formation consisting of andesitic flows, pyroclastics and consanguineous porphyries.

The dominant structure traversing the property is the El Transito fault zone, which hosts almost all of the blocked out resource known to date. This fault zone is on the average 30m wide and is recognizable for several kilometers. It strikes N70W and dips at 30 to 40 degrees to the north. It is defined by strong brecciation, shearing, silicification and concomitant argillic alteration.

Several cross structures have been identified in the footwall zone of the Transito fault. Gold mineralization has been identified in these cross structures increasing the ore potential on the property.

North of the Transito fault, in the Guanacaste hills, another, virtually unexplored vein system has been discovered in three drill holes. This structure, which has been named the Guanacaste fault zone has been traced over 500 meters. Two principal veins, apparently continuous at depth have been traced over 100 to 150 meters. These veins trend approx. N45W dipping at 50 to 60 degrees northeast. Surface samples assayed up to 3g Au.

The stockwork veining and brecciation in all structures has not been tested at depth and has the potential to swell into bodies of significant size and grade.

Reserves

The reserves established to date by drilling and underground development fall into two types:

Indicated Category:

Open-Pit Ore Reserves are calculated at 153,830 tons averaging 6.1 g/t gold and 28,5 g/t Ag.

Underground Ore Reserves are calculated at 197,160 tons averaging 8.5g/t gold and 52.6 g/t silver.

Additional Exploration Potential

The latest(1998) drilling results suggest that there is a strong potential to discover more ore at depth especially to the north and down dip from the previous drilling. This deep mineralization may match or even exceed the reserves defined to date.

The above mentioned mineralization in the cross structures and in the Guanacaste veins have the potential for the discovery of additional,relative high-grade reserves at depth.

Mining And Milling

The geometry of the mineralized bodies dictates a combination of underground/open-pit mining to avoid excessive stripping ratios.

The metallurgical tests show, that the El Transito ores are not amenable to heap leaching because of poor recovery due to the majority of the gold and silver being occluded by silica in the oxide portion and pyrite in the sulfide portion of the ore.

Applying flotation at 80% minus 200 mesh 83.5% gold and 85.7% silver recoveries have been reported. Applying agitated cyanidation at 100% minus 400 mesh recoveries of 95.9% of the gold and 87.8% of the silver in 96 hrs have been achieved. Cyanide consumption was at 1.29 lbs/ton ore and lime consumption to maintain a ph of 10.5 to 11.0 ph) at 1.98 lbs/ t ore is very favourable. Head grade of the test samples was calculated at 0.122 ounce gold per ton".

Conclusion

Considering geology, work performed,location and infrastructure the El Transito property represents the best, advanced gold prospect currently existing in Honduras.

There exists already sufficient information to perform a technical feasibility study.

The potential to discover additional reserves remains excellent.

Bernhard Free



DENVER EQUIPMENT COMPANY
 ORE TESTING DIVISION
 Denver, Colorado

Report No. 05-156577
 Test No. 2

DENVER MINERAL JIG TEST DATA

SAMPLE IDENTIFICATION: Receiving No. 5644 -- L. F. Pekarik

GRINDING:

Preliminary grinding time, minutes Crushed minus 10-mesh ore
 Final grinding time, minutes 10-minutes
 Percent solids 67.0

JIG TEST PROCEDURE:

A charge of head ore crushed to minus 10-mesh was passed over the Denver Laboratory Mineral Jig using a fairly tight bed of 1-1/2 inch depth of steel shot with 1/2-inch of granular magnetite superimposed on the shot. The resulting tailing was then ground 10-minutes in the laboratory rod mill and the product again passed over the jig. The total jig concentrate was cleaned by panning and (continued below)...

PRODUCT	Percent Weight	ASSAYS			PERCENT RECOVERY		
		oz./ton			Au	Ag	
		Au	Ag		Au	Ag	
Calculated Head Assay	100.00	0.22	3.58		100.0	100.0	
Amalgam from Jig Conct.	---	10.76	6.97		28.10	1.14	
Jig Amalgam Residue	0.59	2.24	158.80		5.86	25.45	
Calc. Jig Tailing	99.41	0.14	2.65		66.04	73.41	

NOTES:

Jig Test Procedure (Continued):

the cleaned concentrate subjected to barrel amalgamation. The jig tailing and cleaner tailing were reserved for further grinding and flotation the results of which are reported on Data Sheet No. 3.