

A copy of this preliminary prospectus has been filed with the securities regulatory authorities in the Provinces of British Columbia, Alberta and Ontario but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") and, subject to certain exceptions, may not be offered or sold in the United States or to any U.S. person (as defined in regulation S under the U.S. Securities Act).

New Issue

Preliminary Prospectus

August 25, 2003

BOLIVAR GOLD CORP.

\$53,333,000.10

39,505,926 UNITS

(each consisting of one common share and one-half of one warrant)

To be Issued upon the exercise of 39,505,926 Special Warrants

This prospectus qualifies the distribution of an aggregate of 39,505,926 units (the "Units") of Bolivar Gold Corp. (the "Company" or "Bolivar"), issuable without the payment of any additional consideration upon the exercise of 39,505,926 special warrants ("Special Warrants") of the Company. Each Unit will consist of one common share of the Company (a "Common Share") and one-half of a common share purchase warrant of the Company (each whole common share purchase warrant, a "Warrant"). Each Warrant will entitle the holder thereof to purchase one Common Share at any time until 5:00 p.m. (Toronto time) on August 25, 2008 at an exercise price of \$1.75. The price of the Special Warrants was determined by negotiation between the Company and Griffiths McBurney & Partners, BMO Nesbitt Burns Inc., Orion Securities Inc., Sprout Securities Inc., Canaccord Capital Corporation and McFarlane Gordon Inc. (collectively the "Underwriters"). See "Plan of Distribution".

The Special Warrants were issued by the Company pursuant to exemptions contained in applicable securities legislation in accordance with the terms of an underwriting agreement dated August 25, 2003 between the Company and the Underwriters (the "Underwriting Agreement"). Each Special Warrant is exercisable without the payment of any additional consideration for one Unit, subject to adjustment, at any time until 5:00 p.m. (Toronto time) (the "Expiry Time") on the day (the "Expiry Date") which is the earlier of (i) the third business day after a receipt is issued for this prospectus by the securities regulatory authorities (the "Securities Commissions") in each of British Columbia, Alberta and Ontario (the "Qualifying Jurisdictions") and (ii) December 26, 2003. If a receipt for this prospectus has not been issued by or on behalf of the Securities Commissions by November 23, 2003, then each outstanding Special Warrant held by purchasers will thereafter be exercisable for 1.1 Units (in lieu of one Unit). Special Warrants that have not been previously exercised will be deemed exercised on behalf of, and without any required action on the part of, the holder immediately prior to the Expiry Time on the Expiry Date.

	<u>Price to Public</u>	<u>Underwriters' Fee</u>	<u>Net Proceeds to the Company ⁽¹⁾</u>
Per Special Warrant	\$1.35	\$0.081	\$1.269
Total	\$53,333,000.10	\$3,199,980.01	\$50,133,020.09

(1) Before deduction of expenses of this offering payable by the Company and estimated to be \$300,000. See "Use of Proceeds".

The outstanding Common Shares of the Company are listed on the Toronto Stock Exchange (the “Exchange”) under the symbol “BGC” and prior thereto, were listed on the TSX Venture Exchange (the “TSXVE”). The closing price of the Common Shares on the Exchange on August 11, 2003, the last trading day prior to the announcement of the offering, was \$1.20. See “Price Range and Trading Volume of Common Shares”.

An investment in Units should be considered speculative due to the nature of the Company’s business. The risk factors outlined in this prospectus should be carefully reviewed and considered in connection with an investment in Units. See “Risk Factors”.

There is currently no market through which the Special Warrants or Warrants may be sold and purchasers may not be able to resell the Special Warrants or Warrants.

Definitive certificates representing the Common Shares and Warrants issuable upon the exercise or deemed exercise of the Special Warrants are expected to be available for delivery on or about the date the Special Warrants are exercised.

Certain legal matters relating to the offering of Special Warrants have been and will be passed upon on behalf of the Company by Wildeboer Rand Thomson Apps & Dellelce, LLP and on behalf of the Underwriters by Fraser Milner Casgrain LLP.

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Currency: All dollar amounts herein are stated in Canadian dollars except where otherwise indicated.

Exchange Rates: The following table reflects the rate of exchange for United States dollars into Canadian dollars in effect at the end of the following periods and the average rate of exchange during such periods, based on the Bank of Canada average noon spot rate of exchange:

<u>U.S. Dollars to Canadian Dollars</u>	<u>For the six months ended June 30, 2003</u>	<u>For the year ended December 31,</u>		
		<u>2002</u>	<u>2001</u>	<u>2000</u>
Rate at end of period	1.3475	1.5796	1.5920	1.5002
Average rate for period	1.4548	1.5704	1.5484	1.4852
High for period	1.5800	1.6132	1.6021	1.5593
Low for period	1.3305	1.5110	1.4936	1.4341

On August 22, 2003, the Bank of Canada noon spot rate of exchange was US \$1.00 = Cdn. \$1.4099 or Cdn. \$1.00 = US \$0.7093.

SUMMARY

The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.

The Company: The Company and its subsidiaries are engaged in the business of exploring and developing mineral resources properties. The Company's exploration properties are located in Venezuela, where the target metal the Company is exploring for is gold. See "The Company" and "Narrative Description of the Business".

Offering: This prospectus qualifies the distribution of 39,505,926 units ("Units") issuable by the Company upon the exercise of 39,505,926 outstanding special warrants (the "Special Warrants") of the Company. Each Unit will consist of one common share (a "Common Share") of the Company and one-half of one warrant (each whole warrant a "Warrant"). Each Warrant will entitle the holder thereof to purchase one Common Share until 5:00 p.m. (Toronto time) on August 25, 2008 at an exercise price of \$1.75. The Special Warrants were issued by the Company on August 25, 2003 (the "Closing Date"), at a price of \$1.35 per Special Warrant pursuant to exemptions contained in applicable securities legislation and in accordance with the terms of an Underwriting Agreement dated August 25, 2003 between the Company and Griffiths McBurney & Partners, BMO Nesbitt Burns Inc., Orion Securities Inc., Sprott Securities Inc., Canaccord Capital Corporation and McFarlane Gordon Inc. (collectively the "Underwriters"). See "Plan of Distribution".

Special Warrants Each Special Warrant is exercisable without payment of any additional consideration for one Unit, subject to adjustment, at any time on or before 5:00 p.m. (Toronto time) (the "Expiry Time") on the day (the "Expiry Date") which is the earlier of (i) the third business day after a receipt for this prospectus qualifying the distribution of the Units issuable upon exercise of the Special Warrants by the securities regulatory authorities (the "Securities Commissions") in each of British Columbia, Alberta and Ontario (collectively the "Qualifying Jurisdictions") and (ii) December 26, 2003. If a receipt for this prospectus has not been issued by or on behalf of the Securities Commissions by November 23, 2003, then each outstanding Special Warrant will thereafter be exercisable for 1.1 Units (in lieu of one Unit). Special Warrants that have not been previously exercised will be deemed exercised on behalf of, and without any required action on the part of, the holder immediately prior to the Expiry Time on the Expiry Date.

The Special Warrants were issued under a special warrant indenture (the "Special Warrant Indenture") dated August 25, 2003 between the Company and Equity Transfer Services Inc., as special warrant agent (in such capacity, the "Special Warrant Agent").

The Warrants will be issuable under a warrant indenture (the "Warrant Indenture") dated the Closing Date between the Company and Equity Transfer Services Inc., as warrant agent (in such capacity, the "Warrant Agent").

Use of Proceeds: The gross proceeds from the offering of the Special Warrants were \$53,333,00.10. From these proceeds, the Company paid an aggregate commission of \$3,199,980.01 to the Underwriters. After deducting the Underwriters' commission and the expenses of the offering, estimated to be \$300,000, the net proceeds from the offering will be \$49,833,020.09. Given the Company's estimated consolidated working capital surplus of \$8,863,414 as at June 30, 2003, the total funds available to the Company are \$58,696,434.09. The Company expects to use these available funds as follows:

To fund development of the Company's Choco properties
in Venezuela

Cdn\$
\$28,500,000.00

To fund the Company's share of property acquisition and exploration costs related to Gold Fields joint venture	\$7,000,000.00
To fund exploration costs related to the Company's Choco properties (see section entitled "General Development of the Business – Three Year History")	\$14,000,000.00
General working capital	\$9,196,434.09
Total	<u>\$58,696,434.09</u>

The Company intends to spend the funds available to it from the sale of the Special Warrants as set out in this prospectus. However, there may be circumstances where, for sound business reasons, a reallocation of funds may be prudent or necessary. See "Narrative Description of the Business", "Management's Discussion and Analysis – Financing Activities" and "Use of Proceeds".

Selected Financial Information:

The following table sets forth selected consolidated financial data of the Company. It should be read in conjunction with "Management's Discussion and Analysis" and the Company's financial statements and related notes that are included elsewhere in this prospectus.

BOLIVAR GOLD CORP.

Consolidated Financial Information

	Pro Forma Consolidated for the Fiscal Year ended December 31,	Fiscal Year ended December 31,		
		2002	2001	2000
		US\$	US\$	US\$
	(unaudited)	(audited)		
Revenues	\$ 3,095	\$ 3,095	\$ 687,628	\$ 3,393,192
Write downs	\$ 4,348,012	\$ -	\$ -	\$ 8,418,006
Operating loss	\$ 388,004	\$ 388,004	\$ 125,517	\$ 8,118,343
General & administrative expenses	\$ 390,539	\$ 390,539	\$ 194,094	\$ 146,503
Interest and financing expense	\$ 208,266	\$ -	\$ 71,366	\$ 277,664
Gain on sale of subsidiary	\$ 139,702	\$ 139,702	\$ -	\$ -
Loss on sale of oil and gas properties	\$ -	\$ -	\$ 883,052	\$ -
Taxes				
Current	\$ 94,750	\$ -	\$ -	\$ 34,608
Deferred	\$ -	\$ -	\$ -	\$ -
Loss for the year	\$ 4,865,467	\$ 187,374	\$ 1,112,163	\$ 8,406,799
Basic loss per share ⁽¹⁾	\$ 0.40	\$ 0.03	\$ 0.23	\$ 1.77
Total assets	\$ 4,914,313	\$ 959,778	\$ 571,273	\$ 5,492,138
Total long term debt	\$ -	\$ -	\$ -	\$ 1,936,192

	Fiscal Quarter ended March 31,	
	2003	2002
	US\$	US\$
	(unaudited)	
Revenues	\$ 2,929	\$ -
Operating gain (loss)	\$ 2,929	\$ -
General & administrative expenses	\$ 416,893	\$ 28,692
Foreign exchange gain	\$ 100,533	\$ 3,304
Taxes		
Current	\$ -	\$ -
Deferred	\$ -	\$ -
Loss for the quarter	\$ 313,431	\$ 25,388
Basic loss per share ⁽¹⁾	\$ -	\$ -
Total assets	\$ 14,445,163	\$ 959,778 ⁽²⁾
Total long term debt	\$ -	\$ -

(1) Fully diluted loss per share is not presented as its effect is anti-dilutive.

(2) As at December 31, 2002.

Risk Factors:

An investment in Units is subject to a number of risks. These risks include the following:

- All of the resource properties in which the Company has interests are in the exploration stage only and are without a known body of ore. Exploration and development of natural resources involve a high degree of risk and few properties which are explored are ultimately developed into producing properties.
- Substantial expenditures are required to establish reserves through drilling, to develop processes to extract any resources and, in the case of new properties, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that resources will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.
- Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome.
- The Company's revenues, if any, are expected to be in large part derived from the extraction and sale of precious metals such as gold. The price of these commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control.
- All phases of the Company's operations are subject to environmental regulation in Venezuela.
- Although the Company has received a title opinion for the exploration properties of the Company located in Venezuela, there is no guarantee that title to such properties will not be challenged or impugned.
- The Company's exploration and development activities occur in Venezuela and, as such, the Company may be affected by political or economic instability in Venezuela. Venezuela has imposed exchange controls that could make it difficult for foreign mining companies to repatriate profits.

- The Company's business is dependent on retaining the services of a small number of key personnel of the appropriate calibre as the business develops. The success of the Company is, and will continue to be to a significant extent, dependent on the expertise and experience of the directors and senior management and the loss of one or more could have a materially adverse effect on the Company.

See "Narrative Description of the Business" and "Risk Factors".

GLOSSARY

The following is a glossary of technical terms that appear in this prospectus:

“Au”	Gold.
“deposit”	A mineralized body which has been physically delineated by sufficient drilling, trenching, and/or underground work and found to contain a sufficient average grade of metal or metals to warrant further exploration and/or development expenditures. Such a deposit does not qualify as a commercially mineable ore body or as containing ore reserves, until final legal, technical, and economic factors have been resolved.
“Exchange”	Toronto Stock Exchange.
“grade”	The weight of precious metals in each tonne of ore.
“g/t”	Grams of gold per metric tonne.
“ha”	Hectare.
“host rock”	The body of rock in which mineralization of economic interest occurs.
“microns”	0.000001 metres
“millimeters”	0.001 metres
“mine”	An excavation in the earth for the purpose of extracting minerals. The excavation may be an open pit on the surface or underground workings.
“mineral resource”	A concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth’s crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources fall under the following categories: “measured mineral resource” That part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity. “indicated mineral resource” That part of a mineral resource for which quantity, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters and to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

“inferred mineral resource”

That part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

“mineralization”

Rock containing minerals or metals of potential economic interest.

“metallurgy”

The science of extracting metals from ores by mechanical and chemical processes and preparing them for use.

“ounce” or “oz”

Troy ounce, equal to approximately 31.103 grams.

“ore”

A natural aggregate of one or more minerals which, at a specified time and place, may be mined and sold at a profit, or from which some part may be profitably separated.

“oz/t”

Troy ounces per short ton.

“recovery”

A term, generally stated as a percentage, used in process metallurgy to indicate the proportion of valuable material obtained in the processing of an ore.

“tonne”

A metric tonne, 1000 kilograms or 2,204.6 pounds.

THE COMPANY

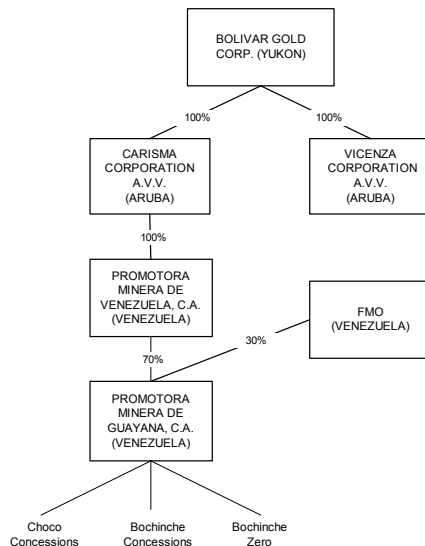
Name and Incorporation

Bolivar Gold Corp. (“Bolivar” or the “Company”) was incorporated under the name Harrington Sound Resources Inc. under the Business Corporations Act (Ontario) on March 11, 1988. The Company’s articles were amended on November 7, 1989 to change the name of the Company to Harrington Financial Inc. and to consolidate its outstanding common shares on a one-for-two basis. On June 19, 1997, the Company continued under the laws of the Yukon Territory, changed its name to TecnoPetrol Inc., consolidated its issued and outstanding common shares on a one-for-fifteen basis and cancelled its authorized and unissued class B preference shares. On August 1, 2002, the Company amended its articles to consolidate its issued and outstanding common shares on a one-for-six basis. On January 24, 2003, the Company amended its articles to change its name to Bolivar Gold Corp. On January 9, 2003, the shareholders of the Company repealed by-law no. 2 of the Company, which set out certain procedures and requirements for directors’ votes on prescribed business and was enacted as a result of an earlier financing for the benefit of a significant shareholder, which subsequently sold its shares in the Company, resulting in management determining that the by-law no longer served a useful purpose.

The registered office of the Company is located at 200 – 204 Lambert Street, Whitehorse, Yukon Territory Y1A 3T2, and its head office is located at Suite 1502, 110 Yonge Street, Toronto, Ontario M5C 1T4. The Company also has an office in Caracas, Venezuela.

Intercorporate Relationships

The Company owns all of the issued and outstanding shares of Carisma Corporation A.V.V. (“Carisma”). Carisma has acquired 100% of the issued and outstanding shares of Promotora Minera de Venezuela, C.A. (“Promiven”). Promiven owns 70% of the issued and outstanding shares of Promotora Minera de Guayana, C.A. (“PMG”) which is the holder of certain mineral exploration property interests in Bolivar State, Venezuela. The Company owns all of the issued and outstanding shares of Vicenza Corporation A.V.V. which has entered into an agreement to purchase the equipment associated with an ore processing mill. See “Narrative Description of the Business – Overview of Operations” for further information.



GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

The Company was, from 1997 through 2001, involved in the oil and gas exploration, development and production business in Colombia. In addition to oil and gas exploration properties, the Company had small production fields and a pipeline that generated sufficient revenues to cover local working capital requirements, but which were insufficient to support any form of exploration program. As a result, by fiscal 2000, it was clear to the Company that, with limited funds available to finance its exploration programs and few joint venture opportunities available due to the volatile political and economic climate in Colombia, it would be extremely difficult to turn its land position in Colombia into producing fields. As a result, the decision was made to turn this land position into cash and seek an alternative business in which to invest.

On June 19, 2001, the Company completed the sale to Bioestratigrafica Ltda. and Bayheim Investments of all of its shares in Petroleos del Norte S.A. (“PetroNorte”), the Company’s Colombian operating subsidiary. The sale of these shares constituted a disposition of substantially all of the Company’s operating assets and liabilities, which were held in PetroNorte. The consideration for the purchase consisted of (i) the assumption by the purchasers of all of the liabilities of PetroNorte, excluding accrued salaries and certain other liabilities but including all of PetroNorte’s outstanding bank debt, and (ii) the payment of US\$1.0 million in cash to the Company. In November 2002, the Company sold its subsidiary, TP TecnoPetro AVV (“TP AVV”) and related Colombian branch office to A&C Oil and Investments S.A. (“AC Oil”) in consideration for the assumption by the purchaser of all of TP AVV’s liabilities. By the end of the fiscal year ended December 31, 2002, the Company had sold or otherwise disposed of all of its oil and gas assets.

In April 2002, the Company announced that it was purchasing a 50% interest in European Real Estate ApS (“ERE”), a developer of luxury properties, the sole asset of which was an agreement to acquire a property and associated buildings located in Siena Province, Italy known as “Montingegnoli”. In consideration for the acquisition of its interest in ERE, the Company agreed to issue to Toscana Holdings ApS (“Toscana”), a Danish company that is the parent of ERE, that number of shares equal to 90% of the Company’s issued and outstanding capital. The Company also agreed to make the initial two down payments of \$95,000 and \$466,000 respectively (the “Deposits”) on the acquisition of the Montingegnoli property. Due to an inability to restructure its agreement with Toscana to satisfy regulatory concerns, in May 2002 the Company announced that it would not proceed with the acquisition of the 50% interest in ERE. The Company agreed to transfer to Toscana the liability arising from \$400,000 in loans obtained by the Company from third parties (which money was used by the Company to fund its obligation to pay the Deposits) in consideration for the cancellation by the Company of all rights to \$400,000 of the Deposits, leaving an outstanding balance due from Toscana on the Deposits of \$161,000. The Company also agreed to pay up to \$100,000 of consulting, legal and other fees incurred in evaluating the project and assigned the work product therefrom to Toscana in consideration of Toscana’s agreement to (i) grant the Company a 1% interest in ERE, and (ii) repay the remaining balance of \$161,000, plus the \$73,375 of fees paid, from cash flow of ERE.

In February 2003, subject to final approval of the TSXVE, the Company acquired all of the issued and outstanding shares of Carisma and, thereby, Carisma’s indirect 70% interest in the Choco 4 and 10 and Bochinché B1 and B2 mineral concessions and the mining rights over the area known as Bochinché Zero located in Venezuela. In March 2003, the Company received the final approval of the TSXVE in respect of this acquisition.

On April 3, 2003, the Company announced that it had entered into an agreement dated as of March 15, 2003 with Hecla Mining Company (“Hecla”) for the acquisition of crushing, grinding, gravity concentration, carbon adsorption and Merrill-Crowe precipitation processing facilities, which the Company intends to locate at its Choco 10 property. In June, 2003, the Company commenced dismantling the mill and preparing it for shipment; the dismantling process is expected to be completed by October 2003.

On May 30, 2003, the Company obtained a final receipt for its prospectus qualifying for distribution 25,640,000 common shares and 12,820,000 share purchase warrants of the Company, for gross proceeds to the Company of \$19,230,000. The proceeds from the issuance of these securities were used by the Company to pay the acquisition price for Carisma, to fund exploration and development work, to pay for the cost of preparing a bankable feasibility study, and to pay for the acquisition and dismantling the mill equipment acquired from Hecla.

On July 8, 2003, the Company and Gold Reserve Inc. (“Gold Reserve”) signed a letter of intent whereby the parties agreed to jointly explore and, if warranted, develop Gold Reserve’s Choco 5 property in the El Callao district of Venezuela. The Company agreed to fund the initial exploration program and earn a 50% interest in the property and thereafter each party will

contribute equally towards the exploration and development costs. In addition, the Company and Gold Reserve have agreed to jointly pursue other exploration opportunities within a defined area of interest in the El Callao region of Venezuela excluding the Company's Choco 4 and 10 concessions. Completion of the transaction is subject to execution of a definitive agreement and regulatory approval.

On July 24, 2003, the Company signed a letter of intent with a wholly-owned subsidiary of Gold Fields Ltd. ("Gold Fields") whereby the two companies agreed to jointly acquire, explore and, if warranted, develop gold properties in a defined area of interest in the El Callao region of Venezuela, excluding the Company's Choco 4 and 10 concessions. For all properties acquired under this letter of intent, the Company and Gold Fields shall equally fund all property acquisition costs. Gold Fields will be responsible for funding all costs of exploration through to completion of a bankable feasibility study, with the Company's 50% share of such costs treated as a loan by Gold Fields and recovered preferentially from the Company's share of future cash flows. Gold Fields has the right to increase its interest from 50% to 65% in any project by waiving repayment by the Company of its share of exploration and development costs. Completion of the transaction is subject to execution of a definitive agreement and regulatory approval.

Significant Acquisition

The Company entered into an arm's length share purchase agreement dated as of February 5, 2003 (the "Bolivar-Carisma Agreement") with Carisma, Newfield Investments A.V.V. ("Newfield"), an Aruban corporation, and Enrique Valero, the sole shareholder of Newfield.

Pursuant to the Bolivar-Carisma Agreement, the Company purchased from Newfield all of the issued and outstanding shares of Carisma in consideration of the issuance to Newfield of 5,000,000 Common Shares having a deemed value of \$1,500,000. Carisma's sole asset is all of the issued and outstanding shares of Promiven. Promiven in turn owns 70% of the issued and outstanding shares of PMG, a Venezuelan corporation which is the lease holder of mineral concessions known as the Choco 4 and 10 and Bochinche B1 and B2 mineral concessions (the "Concessions") and the holder of mining rights over an area known as Bochinche Zero, all located in the El Callao and Sifontes Municipalities, Bolivar State, Venezuela (the Concessions and the Bochinche Zero area are collectively referred to herein as the "Properties"). The remaining 30% of the issued and outstanding shares of PMG is owned by CVG-Ferrominera del Orinoco, C.A. ("FMO"), a Venezuelan corporation which is a wholly owned subsidiary of Corporación Venezolana de Guayana ("CVG"), a Venezuelan government corporation.

The 5,000,000 Common Shares issued to Newfield pursuant to the Bolivar-Carisma Agreement are subject to the escrow requirements of the Exchange, which provide that such Common Shares will be released from escrow in instalments over an eighteen month period. See "Escrowed Securities".

Pursuant to a share purchase agreement dated February 4, 2003 (the "Carisma-Cemex Agreement"), Carisma acquired all of the issued and outstanding shares of Promiven in consideration for the following payments (the "Promiven Purchase Price") to the vendor, Cemex Venezuela S.A. ("Cemex"): (a) US\$300,000 upon execution of the Carisma-Cemex Agreement, which sum (the "Advance") was paid by the Company to Cemex on Carisma's behalf in advance of the completion of the Company's acquisition of Carisma; (b) US\$1 million on each of February 4, 2004 and 2005; and (c) US\$1.2 million on February 4, 2006. In addition to the Promiven Purchase Price, Carisma has agreed to pay Cemex a bonus payment of US\$1,500,000 to be paid either (i) in two instalments of US\$750,000 on each of the eighth and ninth anniversaries of the date of commencement of commercial production from any of the Properties, or (ii) in a single instalment of US\$1,500,000 (or the balance of the US\$1,500,000 not then paid) within 90 days after reaching a total production of 700,000 ounces of gold from any of the Properties, whichever occurs first. On May 27, 2003, the Company, Cemex and Carisma signed an addendum to the Carisma-Cemex Agreement pursuant to which, in lieu of the foregoing instalment payments of the Promiven Purchase Price, the Company paid Cemex a lump sum of US\$2,950,000 in satisfaction of the Promiven Purchase Price.

Under the Carisma-Cemex Agreement, Carisma is also obliged to pay to Cemex a sliding scale royalty ranging between US\$10 and US\$20 per ounce of gold (depending on the prevailing gold price at the time of payment) on production exceeding 700,000 ounces. The Properties are also subject to additional existing royalties, as described under "Narrative Description of the Business – Exploitation Royalties and Taxes" below.

In 1993, a drilling program of over 1,200 shallow holes was commenced on the Choco areas of the Concessions and a resource evaluation study and preliminary feasibility study followed between 1994 to 1996. Micon International Ltd. ("Micon") was retained by the Company to review and recalculate the previous resource estimate. Micon has recommended

a US\$1,000,000 program of confirmation, definition and exploration drilling on the Choco areas of the Concessions. The Company plans to carry out the recommended drilling program.

NARRATIVE DESCRIPTION OF THE BUSINESS

Background

The Company is in the business of exploring and developing mineral resource properties. The Company's exploration properties are located in Venezuela, where the target metal the Company is exploring for is gold. The Company's exploration activities are directed from its offices in Toronto, Ontario and Caracas, Venezuela.

Government

Venezuela is a democratic federal republic under the terms of its constitution (the "Constitution"), the text of which was drafted by a National Constituent Assembly in 1999 and approved by the people of Venezuela through a national referendum held in December of that year. The country has had democratically elected governments since 1958, following the overthrow of a military dictatorship.

Politically, the country is divided into 23 states, one Federal District and several Federal Dependencies (islands).

Executive power is vested in the President, who is elected by direct universal suffrage for six years with one possible immediate re-election. The President appoints a Vice-President and several Ministers, who head different executive departments and together constitute the "Council of Ministers".

National legislative power is vested in the National Assembly, which is a unicameral body of 165 deputies elected by direct and universal suffrage for terms of five years. Approximately half of the seats are elected nominally and the remainder are elected under a proportional representation system.

Judicial power is vested in the Supreme Tribunal of Justice, which is divided into five chambers, and various lower courts and tribunals. The National Assembly appoints the Justices of the Supreme Tribunal of Justice for a term of twelve years. The Supreme Tribunal of Justice is the final court of appeal and has the power to declare null and void any law, regulation or any other act of the executive or legislative branches of the government that conflicts with the Constitution.

At the state level, executive power is vested in the Governors, who are elected by universal and direct suffrage for terms of four years, and legislative power is vested in Legislative Councils constituted by deputies elected by universal and direct suffrage for terms of four years. Municipalities are governed by a mayor, as the executive officer, and a Municipal Council, with legislative powers on local affairs. Both are elected by universal and direct suffrage for terms of four years.

Economy

The Venezuelan economy relies primarily on exports of crude oil and related products. Mining contributes little more than one percent of Venezuela's gross domestic product. While there is a high level of State ownership in natural resource related industries, other sectors like commerce, services, transport, banking and financial services and construction are largely held by foreign and domestic private investors. Foreign investment in Venezuela is unrestricted, save for specific sectors like open television, Spanish language newspapers and some liberal professions. Foreign investment is treated under the same rules as domestic investment and several regulatory bodies protect and guarantee property rights of foreign investors as well as their rights to repatriate capital, interests and dividends. Venezuela has signed several bilateral treaties on incentives to and protection of foreign investments with, among others, Canada.

Traditionally, Venezuela has enjoyed a system of economic liberties and free flow of capital. Save for limited periods of time and under extraordinary circumstances, during which the Venezuelan government has imposed exchange controls and restrictions, the national currency, the "Bolivar", has been freely exchangeable at market rates. On January 22, 2003, the foreign currency market in Venezuela was suspended until February 5, 2003. On February 6, 2003, the National Executive of Venezuela (the "Executive") and the Central Bank of Venezuela (the "Central Bank") enacted exchange control regulations as a temporary measure to protect international reserves (the "Exchange Control Regulations"). The exchange rate has been fixed at 1,596 Bolivars to the US dollar for the sale of US dollars and at 1,600 Bolivars to the US dollar for the purchase of US dollars, and the rate is to fluctuate, changing periodically whenever and however the Executive and Central

Bank see fit. All foreign currency brought into Venezuela (as foreign investment) by an investor must be sold to the Central Bank at the fixed exchange rate at the time of the transaction. In principle, all foreign currency derived from the export of products from Venezuela, including gold, must be sold to the Central Bank at the fixed exchange rate at the time of the transaction. Foreign investors have the right to apply to the Central Bank for foreign currency at the fixed exchange rate for the purposes of repatriation of capital, dividends and interest.

Pursuant to the Investment Protection Treaty with Canada which was ratified by Venezuela on January 20, 1998 (the "Canada-Venezuela Treaty"), Canadian-based investors such as the Company may be afforded greater protection in Venezuela than certain other foreign investors and may be exempt from complying with certain restrictions imposed by the Exchange Control Regulations. The provisions of the Canada-Venezuela Treaty prevail over the provisions of other Venezuelan laws and regulations, including those of the Exchange Control Regulations.

One of the most significant advantages of the protections provided to foreign investors by an Investment Protection Treaty like the Canada-Venezuela Treaty is that such a treaty may not be amended or made ineffective without complying with certain specific procedures and after a certain period of time has elapsed.

The Canada-Venezuela Treaty guarantees a Canadian company like the Company the free transferability and convertibility of dividends and other profits or gains resulting from an investment and the repatriation of the investment. The Exchange Control Regulations are not expected to affect the transferability and convertibility rights of the Company as a Canadian foreign investor in Venezuela. In addition, the Canada-Venezuela Treaty guarantees a Canadian company like the Company the unrestricted transfer of investments and returns, including funds (i) for the remittance of dividends or capital gains, (ii) for the repayment of foreign currency loans and interest derived therefrom, and (iii) for foreign currency payments derived from service and technology agreements, royalties and other payments derived from the use of industrial and intellectual property rights. The effectiveness of this protection is still to be tested under the Exchange Control Regulations. Under the Canada-Venezuela Treaty, Venezuela may not impose on the Company or on its Venezuelan subsidiaries limits on the availability of foreign currency for imports necessary for their operations in Venezuela. An additional level of protection arises from the fact that disputes between the Company and Venezuela on matters covered by the Canada-Venezuela Treaty, if amicable negotiation fails, may be settled either before the courts of Venezuela or by means of international arbitration. Any award under international arbitration is final and binding.

The precise mechanics for currency dealings for the beneficiaries of treaties such as the Canada-Venezuela Treaty are unregulated. Therefore, in practice it is difficult to assess how the treaty may benefit the Company in any given specific situation.

Venezuela has experienced high levels of inflation during the past decade, ranging from 103% in 1996 to 13% in 2001. The inflation rate for 2002 was approximately 33.8%.

Taxation

Corporations and individuals doing business in Venezuela are subject to general taxes such as general income tax, business assets tax (deductible back to back from income tax) and value added tax. The income tax rate applicable to mining activities is on a sliding scale up to 34% on taxable income. Value added tax is 16% on value of purchases, services and imports, with surcharges for luxury goods. The law provides for income tax incentives for new investments, as well as value added tax exemptions for certain activities. Business assets tax is not applicable to companies in pre-operative stage.

In March 2002, the government enacted the bank debit tax law, which imposes a 1% tax on most transfers and withdrawals from local bank accounts. This tax was enacted as a temporary measure until March 14, 2003. On March 13, 2003, the bank debit tax law was amended (i) to extend the applicability of the bank debt tax until March 12, 2004; and (ii) to modify the bank debit tax rate as follows: (a) 1% up to and including June 30, 2003; (b) 0.75% from and including July 1, 2003 to and including December 31, 2003 and (c) 0.50% from and including January 1, 2004 until and including March 12, 2004.

There are some state and municipal taxes that apply to special activities. Notably, the most important municipal tax is the Patent of Industry and Commerce Tax usually calculated as a percentage of taxpayer gross income.

Mining operations are subject to national general taxes and to special mining taxes, but they are not subject to general state or municipal taxes. Mining taxes include exploitation tax, which is a gross royalty on production, as well as surface taxes, calculated on the area of mining rights.

Property Rights

Property rights, both of foreigners and nationals, are protected under the Constitution. Mining rights are also protected, and their integrity is provided for in mining regulations. However, all property rights of assets located in Venezuela, including mining rights, are subject to expropriation by the Venezuelan government. Expropriation cannot be compulsive and must follow a specific procedure which provides, among other things that no expropriation can be effected without timely and fair indemnity. Mining rights are, however, subject to compliance with certain obligations. Lack of compliance may lead to termination of such mining rights without indemnity. Mining authorities have in the past terminated mining rights for material lack of compliance with their terms.

In addition, pursuant to the Canada-Venezuela Treaty, Canadian investors in Venezuela are also protected against expropriation, nationalization or similar governmental action, unless such action derives from legal procedures based on public benefit, effected without discrimination and with prompt, effective and adequate compensation. Pursuant to the Canada-Venezuela Treaty, indemnification for expropriation, nationalization or similar actions must be made based on the market value of the object or asset, with interest at the commercial rate from the time of the expropriation, nationalization or other action until the indemnification is paid.

Recent Developments

From the last quarter of 2001 to date, an increasing sector of the Venezuelan population has been demanding material changes in the policies of the current government, which this sector views as under-performing in economic, social, security and other matters, as well as threatening of democratic principles. The Venezuelan government has been reluctant to effect any change in its policies, which has led to massive demonstrations and national strikes asking for early elections, which actions have had a material adverse impact on the economy of Venezuela. Negotiations brokered by the Organization of American States and a group of countries (Group of Friends) between the Government and opposition representatives resulted in an agreement to ease political tensions and to resolve the political crisis through electoral ways. The Constitution provides for the possibility of a referendum on the revocation of the mandate of the President after the completion of the first half of the presidential term (which occurred on August 19, 2003). Political unrest has continued as the opposition rallies the population for the referendum. Such referendum is conditioned, among other things, on the National Electoral Committee being appointed by the National Assembly. Failure by the National Assembly to appoint the National Electoral Committee has resulted in the Supreme Tribunal of Justice to set a deadline for the appointment of the National Electoral Committee, failing which it will appoint it itself. Appointment of the National Electoral Committee is expected by the second half of August 2003 and the organization of the referendum to start immediately thereafter. Subject to any judicial decision to the contrary and other factors, such referendum is expected to take place by the fourth quarter of 2003. Should the President of the Republic be removed from office by the referendum, new elections are required to be called in 30 days.

Summary of the Properties

The two primary properties in which the Company has a 70% interest are the Choco 4 and Choco 10 concessions, which are located approximately 15 km west of the mining town of El Callao, Bolivar State, Venezuela. These two contiguous concessions cover a total area of 7,214.51 hectares. The Bochinche B1 and B2 concessions and the Bochinche Zero area are located approximately 130 km northeast of the mining town of Tumeremo, Sifontes Municipality, Bolivar State, Venezuela. These contiguous concessions and area cover a total area of 15,000 hectares.

The following disclosure under the headings “General Mining Rights in Venezuela” and “Mining Rights over the Concessions”, and the first two paragraphs under the heading “Current Ownership of the Properties”, has been derived from a title opinion (the “Title Opinion”) dated February 28, 2003 prepared by Jorge Neher of the Venezuelan law firm Despacho de Abogados miembros de Macleod Dixon sc.

General Mining Rights in Venezuela

The Venezuelan Mining Law of 1945 (the “1945 Mining Law”) was based on the principle that all mineral deposits are the property of the State. Under the 1945 Mining Law and until 1991, mining rights in Venezuela were granted to individuals and corporations exclusively via concessions granted by the Venezuelan Ministry of Energy and Mines (the “MEM”) according to a statutory procedure established in the 1945 Mining Law.

In January 1991, by order of the Presidential Decree 1,409 (“Decree 1,409”), the MEM issued Resolution No. 02, which assigned the gold and diamond mining rights in the Guayana region owned by the Republic of Venezuela to CVG. Decree 1,409 assigned the mining rights to CVG and authorized CVG to enter into contracts (“CVG Contracts”) with individuals and corporations for the purpose of carrying out gold and diamond exploration and exploitation activities within the Guayana region (which includes the Venezuelan States of Amazonas, Bolívar and part of Delta Amacuro). Concessions granted by the MEM before the enactment of Decree 1,409 in January 1991 remain valid and enforceable in Venezuela. In addition, the authority to grant concessions for gold and diamonds for which applications had already been filed and published before Decree 1,409 came into force remained within the MEM.

Decree 1,409 contained certain areas of confusion which generated tensions between CVG and the MEM. In 1993, CVG and the MEM reached an agreement which resulted in the enactment of Decree 3,281 which clarified: (i) the situation on the authority to grant mining rights over lapsed concessions; (ii) the granting of vein rights over areas where alluvial rights were granted or vice-versa (both in favour of the MEM); and (iii) that the authority of CVG to grant gold and diamond mining rights within the Guayana region was granted to it by the Government according to the “direct exploitation” regime. Nevertheless, Decree 3,281 created other areas of potential conflict between CVG and the MEM.

On July 15, 1996, the Government enacted Decree 1,384, which repealed Decree 3,281. Decree 1,384 eliminated the authority of CVG to grant mining contracts for the exploration, development and exploitation of gold and diamonds in the Guayana region. Pursuant to Decree 1,384, (i) since July 15, 1996, CVG is not authorized to grant new contracts, authorizations or permits based on Decree 3,281, (ii) all contracts, authorizations and permits granted by CVG until July 15, 1996 remain valid, enforceable and binding according to the terms upon which such contracts, authorizations and permits were granted, and (iii) all applications for mining contracts, authorizations and permits submitted to CVG under Decrees 1,409 and 3,281 were transferred to the MEM to be converted into concession applications under the procedure established in Decree 1,384.

Finally, under delegation from Congress, in September 1999, the Venezuelan government issued Decree No. 295 with the rank of Mining Law (the “1999 Mining Law”), which repealed and replaced the 1945 Mining Law.

The 1999 Mining Law contains regulations affecting mining rights granted prior to its enactment. For concessions granted prior to its enactment, the 1999 Mining Law provides, among other things, that: (i) the concessionaries (concession holders) retain the exploitation rights over the minerals and in the manner originally requested; (ii) the concessionaries have to pay the new mining taxes (starting on the second year of the enactment of the 1999 Mining Law); (iii) all issued concessions maintain their original term; and (iv) special advantages in favour of the State remain binding (Article 129). In respect of CVG Contracts, the 1999 Mining Law provides that they may be converted into concessions and establishes a procedure for their conversion.

Mining Rights over the Concessions

Choco 4

The mining title over the area known as Choco 4 was granted by the MEM to CVG on May 10, 1993 and published in the Official Gazette of the Republic of Venezuela Extraordinary N°4,578 dated May 18, 1993 and registered before the Real Estate Registry Office of the Roscio District, State of Bolivar, on April 15, 2003 (the “Choco 4 Concession”). The Choco 4 Concession is a vein and alluvial concession for the exploration and subsequent exploitation of magnesium, niobium, tantalum, molybdenum, vanadium, chrome, nickel, cobalt and tungsten, as well as of gold, copper, silver, zinc and tin, with a term of 20 years, starting with the publication of its exploitation certificate, subject to two possible 10 year extensions up to a maximum term of 40 years. Under the Choco 4 Concession, the holder is obliged to pay an annual surface tax to the MEM, which, during 2003, is expected to be approximately 12 million Bolivars (approximately US\$7,500 at the official exchange rate of 1,600 Bolivars per US dollar). Surface taxes are paid in quarterly instalments.

The Choco 4 Concession was leased by CVG to PMG pursuant to a lease agreement dated February 4, 1994 and authenticated before the Public Notary 2nd of Puerto Ordaz on April 8, 1994 and registered before the Real Estate Registry Office of the Roscio District, State of Bolivar, on April 15, 2003 (the “Choco 4 Lease Agreement”). Pursuant to the Choco 4 Lease Agreement, CVG granted PMG the rights to explore and exploit the vein and alluvial minerals listed in the Choco 4 Concession for the term of the Choco 4 Concession, subject to the payment of royalties and taxes as described under “Narrative Description of the Business – Exploitation Royalties and Taxes” below.

Choco 10

The mining title over the area known as Choco 10 was granted by the MEM to CVG on May 10, 1993 and published in the Official Gazette of the Republic of Venezuela Extraordinary N°4,578 dated May 18, 1993 and registered before the Real Estate Registry Office of the Roscio District, State of Bolivar, on April 15, 2003 (the “Choco 10 Concession”). The Choco 10 Concession is a vein and alluvial concession for the exploration and subsequent exploitation of magnesium, niobium, tantalum, molybdenum, vanadium, chrome, nickel, cobalt and tungsten, as well as of gold, copper, silver, zinc and tin, with a term of 20 years, starting with the publication of its exploitation certificate, subject to two possible 10-year extensions up to a maximum term of 40 years. Under the Choco 10 Concession, the holder is obliged to pay an annual surface tax to the MEM, which, during 2003, is expected to be approximately 17.3 million Bolivars (approximately US\$10,625 at the official exchange rate of 1,600 Bolivars per US dollar). Surface taxes are paid in quarterly instalments.

The Choco 10 Concession was leased by CVG to PMG pursuant to a lease agreement dated February 4, 1994 and authenticated before the Public Notary 2nd of Puerto Ordaz on April 8, 1994 and registered before the Real Estate Registry Office of the Roscio District, State of Bolivar, on April 15, 2003 (the “Choco 10 Lease Agreement” and, together with the Choco 4 Lease Agreement, the “Choco Lease Agreements”). Pursuant to the Choco 10 Lease Agreement, CVG granted PMG the rights to explore and exploit the vein and alluvial minerals listed in the Choco 10 Concession for the term of the Choco 10 Concession, subject to the payment of royalties and taxes as described under “Narrative Description of the Business – Exploitation Royalties and Taxes” below.

Outstanding Surface Taxes on the Choco Concessions

There are outstanding surface taxes on the Choco 4 Concession and Choco 10 Concession (collectively the “Choco Concessions”), which taxes are calculated annually and paid quarterly upon receipt of notification from the MEM. Lack of payment of surface taxes for a concession for more than one year is grounds for termination of the concession at the discretion of the MEM. Venezuelan counsel have advised that the non-payment of surface taxes is due to the MEM not having notified PMG of the amount of the surface taxes payable and, as such, there is no voluntary breach or non-compliance by PMG regarding surface taxes. As of December 31, 2002, management estimates that approximately 64,200,000 Bolivars (approximately US\$40,125 at the official exchange rate of 1,600 Bolivars per US dollar) is required to be paid to the MEM for surface taxes on the Choco Concessions. See “Risk Factors – Title Matters”.

Concession Term

Under the 1999 Mining Law, within the exploration term of the Choco Concessions, the concession holder has to present to the MEM a feasibility study of its project and apply for exploitation certificates of the areas elected for mining. According to the 1945 Mining law, the exploration term of each of the Choco Concessions expired on June 28, 2003, but under the 1999 Mining Law, such exploration term does not expire until June 28 2004. In April 2003 the Company asked the MEM for clarification on the duration of its exploration term and, at the same time, on April 24, 2003 presented for approval to CVG a regulatory (not bankable) feasibility study for development of elected areas of the Choco Concessions. The Company is waiting for approval of the feasibility study from CVG, upon which, and in co-ordination with CVG, it will file such feasibility study with the MEM and apply for exploitation certificates for the elected mining areas of the Choco Concessions. The Company believes that the obligations under these two concessions have been fulfilled and, accordingly, that it will be issued exploitation certificates when applied for. However, there can be no assurance that the MEM will determine that such obligations have been fulfilled. If the MEM determines that such obligations have not been fulfilled, there can be no assurance that the MEM will issue exploitation certificates for the Choco Concessions when applied for or that such concessions will not be terminated. See “Risk Factors - Title Matters”.

Small miners

A variable number of small miners that averages approximately 240 is currently working and mining ore in some areas of the Choco Concessions. Such small miners operate without any mining or environmental permits and most of them are located in areas planned for the development of the Company’s mining project. The Company has made this situation known to all relevant local and national authorities and are working with CVG, the MEM and the Venezuelan National Guard in order to identify alternative areas for these small miners to work and to effect their removal from the properties. The Company has also held discussions with the small miners to this effect and plans to have these persons removed from the areas planned for development within the next few months. However, there can be no assurance that all the small miners will have vacated the development area by the time construction activities commence.

Bochinche B1 and B2

The mining title over the area known as Bochinche B1 was granted by the MEM to CVG on December 15 1989 and published in the Official Gazette of the Republic of Venezuela Extraordinary N°34,464 dated May 10, 1990 and registered before the Real Estate Registry Office of the Roscio District, State of Bolivar, on April 15, 2003 (the “Bochinche B1 Concession”). The Bochinche B1 Concession is a vein and alluvial concession for the exploration and subsequent exploitation of magnesium, niobium, tantalum, molybdenum, vanadium, chrome, nickel, cobalt and tungsten, as well as of gold, copper, zinc and tin, with a term of 20 years, starting with the publication of its exploitation certificate, subject to two possible 10-year extensions up to a maximum term of 40 years. Under the Bochinche B1 Concession, the holder is obliged to pay an annual surface tax to the MEM, which, during 2003, is expected to be approximately 26.2 million Bolivars (approximately US\$16,375 at the official exchange rate of 1,600 Bolivars per US dollar). Surface taxes are paid in quarterly instalments.

The mining title over the area known as Bochinche B2 area was granted by the MEM to CVG on December 15, 1989 and published in the Official Gazette of the Republic of Venezuela Extraordinary N°34,464 dated May 10, 1990 and registered before the Real Estate Registry Office of the Roscio District, State of Bolivar, on April 15, 2003 (the “Bochinche B2 Concession” and, together with the Bochinche B1 Concession, the “Bochinche Concessions”). The Bochinche B2 Concession is a vein and alluvial concession for the exploration and subsequent exploitation of magnesium, niobium, tantalum, molybdenum, vanadium, chrome, nickel, cobalt and tungsten, as well as of gold, copper, zinc and tin, with a term of 20 years, starting with the publication of its exploitation certificate, subject to two possible 10 year extensions up to a maximum term of 40 years. Under the Bochinche B2 Concession, the holder is obliged to pay an annual surface tax to the MEM, which, during 2003, is expected to be approximately 26.2 million Bolivars (approximately US\$16,375 at the official exchange rate of 1,600 Bolivars per US dollar). Surface taxes are paid in quarterly instalments.

The Bochinche Concessions were leased by CVG to PMG pursuant to a lease agreement dated March 18, 1991 (the “Bochinche Lease Agreement” and, together with the Choco Lease Agreements, the “Lease Agreements”). Pursuant to the Bochinche Lease Agreement, CVG granted PMG the rights to explore and exploit the vein and alluvial minerals listed in the Bochinche Concessions for the term of the concessions, subject to the payment of royalties and taxes as described under “Narrative Description of the Business – Exploitation Royalties and Taxes” below.

Bochinche Zero

The mining rights over the area known as Bochinche Zero do not derive from a concession granted by the MEM but rather were granted under Decree 1,409 by CVG to PMG pursuant to an exploration and subsequent exploitation agreement dated June 29, 1993 and authenticated before the Public Notary 2nd of Puerto Ordaz on August 5, 1993 (the “Bochinche Zero Agreement”). Pursuant to the Bochinche Zero Agreement, CVG granted PMG the exclusive right to explore for, and exploit, vein and alluvial gold and diamonds in the area known as Bochinche Zero for a term of 20 years from the date of execution of the Bochinche Zero Agreement, subject to two possible 10-year extensions up to a maximum term of 40 years, and subject to the payment of royalties and taxes as described under “Narrative Description of the Business – Exploitation Royalties and Taxes” below. PMG is also obliged to pay an annual surface tax to the MEM, which, during 2003, is expected to be approximately 23.3 million Bolivars (approximately US\$14,500 at the official exchange rate of 1,600 Bolivars per US dollar). Surface taxes are paid in quarterly instalments. Application for conversion of the Bochinche Zero Agreement into a mineral concession was filed on December 27, 1999 and is still pending.

Outstanding Surface Taxes on the Bochinche Concessions and the Bochinche Zero Area

There are outstanding surface taxes on the Bochinche B1 and B2 Concessions and on the area known as Bochinche Zero. Venezuelan counsel have advised that the non-payment of these surface taxes is due to the MEM not having notified PMG of the amount of the surface taxes payable and, as such, there is no voluntary breach or non-compliance by PMG regarding surface taxes. Management estimates that approximately 102 million Bolivars (approximately US\$63,750 at the official exchange rate of 1,600 Bolivars per US dollar) is required to be paid to the MEM for surface taxes on the Bochinche B1 and B2 Concessions and approximately 50,900,000 Bolivars (approximately US\$31,812 at the official exchange rate of 1,600 Bolivars per US dollar) is required to be paid to the MEM regarding the area known as Bochinche Zero. See “Risk Factors – Title Matters”.

Environmental Permitting for the Bochinche Concessions and the Bochinche Zero Agreement

The Bochinche Concessions and the Bochinche Zero Agreement are located within the “Imataca Forestry Reserve” (IFR). Current regulations of use of the land in the IFR allow exploration and mining activities in certain areas of the IFR, including the areas of the Bochinche Concessions and the Bochinche Zero Agreement. However, to date the Company has been unable to secure environmental permits for exploration of such mining properties. In July 2003, the Venezuelan Government published for public consultation draft amending regulations that further restrict mining activities in the IFR. According to the draft amending regulations, the areas of the Bochinche Concessions and the Bochinche Zero Agreement would be excluded from mining use, which would render ineffective any mining rights derived from such concessions and agreement. The Company intends to file necessary applications for the enforcement of its rights under the leases to the Bochinche Concessions, as well as under the Bochinche Zero Agreement, and to have such areas included for mining use in the final draft IFR. However, there can be no assurance that the new IFR regulations will not impact the status of the mining rights derived from the Bochinche Concessions and the Bochinche Zero Agreement.

Current Ownership of the Properties

On February 1, 1988, Promiven and CVG entered into an association agreement pursuant to which CVG and Promiven agreed to incorporate a joint vehicle (PMG) for the development of certain concessions (the “Association Agreement”) which were originally to be leased by CVG to PMG.

Initially, Promiven was to hold 51% of PMG’s shares and CVG was to hold the remaining 49% of PMG’s shares. The Association Agreement was amended on May 8, 1989 to provide, among other things, that CVG would own 30% of PMG and Promiven would own 70% of PMG. CVG ultimately assigned its interest in PMG to FMO, a wholly owned subsidiary of CVG. The Association Agreement provides that the project risks are to be totally borne by Promiven. FMO’s interest in Promiven is carried (non-assessable and non-funding) through the exploration phase and, thereafter, FMO retains the right to participate in any project development by funding its 30% share.

The shares of PMG may not be transferred or encumbered without the prior approval of the board of directors of PMG. In addition, the by-laws of PMG provide for a right of first refusal for all of its shareholders in connection with the disposal of PMG’s shares by the other shareholders. Any shareholder of PMG intending to sell or dispose of all or a portion of their shares must give notice to the board of directors of PMG, including the particulars of the intended transaction. The board of directors will in turn convey such notice to the remaining shareholders, who will have a right (but not an obligation), within thirty days of delivery of such notice, to acquire such shares under the same terms offered by the disposing shareholder to a third party. If more than one shareholder exercises such rights, the shares will be allocated to each of them pro rata according to their respective holdings.

Notwithstanding controlling a 70% interest in PMG, Promiven is not assured of the unrestricted control of PMG. The by-laws of PMG provide that the quorum for, and decisions of the board of directors of PMG in, meetings require the presence and vote of at least one director appointed by FMO. However, if, due to the absence of the directors appointed by FMO at a duly called meeting of the board of directors, a quorum cannot be established, then a second meeting may be called and, for such meeting, the presence of a simple majority of directors will constitute a quorum and decisions can be taken by simple majority. Similar provisions in the by-laws of PMG apply for meetings of the shareholders of PMG with respect to the presence of representatives of FMO at such meetings.

The Choco Lease Agreements and the Bochinche Zero Agreement require the prior written approval of CVG if PMG intends to assign in any manner the contractual rights thereunder to a third party. The Bochinche Lease Agreement does not contain a similar restriction.

On February 4, 2003, Carisma entered into the Carisma-Cemex Agreement with Cemex and the Company pursuant to which Carisma purchased 100% of the shares of Promiven in exchange for the Promiven Purchase Price, to be paid as follows: (a) the Advance, paid by the Company to Cemex on Carisma’s behalf in advance of the completion of the Company’s acquisition of Carisma; (b) US\$1 million on each of February 4, 2004 and 2005; and (c) US\$1.2 million on February 4, 2006. In addition to the Promiven Purchase Price, Carisma has agreed to pay Cemex a bonus payment of US\$1,500,000 to be paid either (i) in two instalments of US\$750,000 on each of the eighth and ninth anniversaries of the date of commencement of commercial production from any of the Properties, or (ii) in a single instalment of US\$1,500,000 (or the balance of US\$1,500,000 not then paid) within 90 days after reaching a total production of 700,000 ounces of gold from any of the Properties, whichever occurs first. On May 27, 2003, the Company, Cemex and Carisma signed an addendum to the

Carisma-Cemex Agreement pursuant to which, in lieu of the foregoing instalment payments of the Promiven Purchase Price, the Company paid Cemex a lump sum of US\$2,950,000 in satisfaction of the Promiven Purchase Price.

A sliding scale royalty ranging between US\$10 and US\$20 per ounce of gold (depending on the prevailing gold price at the time of production) is also payable to Cemex on production exceeding 700,000 ounces. The Properties are also subject to additional existing royalties as more fully described under "Exploitation Royalties and Taxes" below.

On February 28, 2003, subject to final TSXVE approval, the Company purchased from Newfield all of the issued and outstanding shares of Carisma in consideration of the issuance of 5,000,000 Common Shares having a deemed value of \$1,500,000. On March 17, 2003, the Company received final approval of the TSXVE in respect of the acquisition. See "Escrowed Securities".

Exploitation Royalties and Taxes

In addition to the sliding scale royalty payable to Cemex as addressed above, the Choco and Bochinche mining rights are subject to the following exploitation royalties and taxes deriving from Venezuelan mining law, the Association Agreement, the Lease Agreements and the Bochinche Zero Agreement:

1. Choco Lease Agreements:

- (a) A sliding scale royalty is payable to CVG. The royalty is calculated by multiplying the market value of gold production by a grade-dependent royalty, ranging from a 0.28% royalty at a grade of 1 g/t of ore mined to a 10% royalty at a grade of 18 g/t, or greater, of ore mined.
- (b) A royalty 0.5 % of revenues from gold production is payable to Tecnica Minera C.A., a wholly-owned subsidiary of CVG. The royalty is not payable unless PMG has net profits.
- (c) A royalty (being the Mining Law Exploitation Tax) of 3% on the market value of gold production is payable to the MEM.

2. Bochinche Lease Agreement:

- (a) A royalty of 1% on the market value of gold production during the first three years of commercial production is payable to CVG. Thereafter, the royalty increases to 3% on annual production up to 1,500 kg; 5% on annual production from 1,501 kg to 3,000 kg; 8% on annual production from 3,001 kg to 6,000 kg; and 10% on any annual production in excess of 6,000 kg. This royalty is paid quarterly applying the quarterly average market price of gold.
- (b) A royalty (being the Mining Law Exploitation Tax) of 3% on the market value of gold production is payable to the MEM.

3. Bochinche Zero Agreement:

- (a) A sliding scale royalty is payable to CVG. The royalty is calculated by multiplying the market value of gold production by a grade-dependent royalty, ranging from a 0.28% royalty at a grade of 1 g/t of ore mined, to a 10% royalty at a grade of 18 g/t, or greater, of ore mined.
- (b) A royalty (being the Mining Law Exploitation Tax) of 3% on the market value of gold production is payable to the MEM.

Choco 4 and Choco 10 Concessions

The Choco Concessions are the subject of a technical report entitled "Gold Resources of Concessions Choco 4 and 10, Estado Bolivar, Venezuela" prepared for the Company by Stanley Bartlett, P. Geo., Senior Geologist of Micon International Ltd. ("Micon"), originally dated November 26, 2002 and revised January 23, 2003 (the "Micon Report"). The following discussion on these concessions appearing below has been summarized from this report.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The area of the Choco Concessions is covered by gently sloping topography with elevation ranging from 200 m to 300 m above sea level. The annual rainfall of the area is about 1,260 mm and the average temperature is 25°C. The area is classified as savannah type forest, and most of the concessions are presently covered by forest.

A paved secondary road passes through the Choco 10 Concession and provides access to the town of El Callao, about 15 km to the east from the concessions. El Callao has a population of approximately 5,000 and is the centre of population in the area. It is a historic gold mining centre and a number of present and past producing mines are located nearby. The main highway, between the regional centre of Puerto Ordaz to the north, and other gold mining centres of El Dorado, Kilometer 88 and the Brazilian frontier to the south, passes El Callao.

A major high voltage 400 kilovolt electrical supply line carrying power from the Guri dam, and destined for Brazil, passes near El Callao. A sub-station about 5 km from the Choco Concessions supplies power to El Callao. The potential water supply is from the Yuruari River, which passes north of the concessions, approximately 8 km distant, and from which other local mines draw water.

The Choco Concessions are mostly unused for agricultural activity and the gently sloping topography provides suitable and adequate locations for project infrastructure and potential waste storage and tailings storage areas. PMG already has exploitation rights to the entire concession area, which provide adequate area for potential mining and processing operations.

History

Previous Exploration

The exploration activity in Choco started in 1990 with a regional geochemical soil survey carried out by Promiven within the Choco Concessions. Geophysical techniques were utilized during 1992 starting with aeromagnetic survey within the Choco Concessions. It was followed by ground magnetic survey, a detailed geochemical soil survey and trenching covering five prospect areas. A strong indication for gold mineralization was obtained as a magnetic high.

During 1993, a geological survey and a semi-detailed geochemical soil survey carried out within the concession areas disclosed a large gold anomaly (>100 parts per billion gold – “ppb gold”) covering an approximate area of 1,500 m by 1,500 m. Targeting the large gold anomaly, a shallow drilling program was commenced in 1993.

Over 1,200 holes, mainly Aircore, with an average vertical depth of 30 m, were completed. The drilling identified the presence of four major zones of mineralization in the Choco 10 Concession, named as the Coacia, Pisolita, Rosika West and Rosika East prospects. The initial drill spacing was at a grid density of 50 m by 50 m, followed by infill drilling of 50 m by 25 m and 25 m by 25 m. Validation drillings in Coacia and Pisolita were of 12.5 m by 12.5 m spacing.

Aircore drilling in the Choco 4 Concession, according to Promiven, showed mineralization in a saprolite zone and intersected gold bearing quartz veins, and Promiven suggested that lode type mineralization was likely to exist at depth. No record of a resource estimate has been provided.

BHP Engineering (“BHPE”) and Snowden Associates carried out resource evaluation studies for the Choco 10 deposit in 1994-5, and BHPE conducted a preliminary feasibility study during 1995 and 1996.

There has been no reported organized production from the Choco Concessions. There is evidence of some surface workings conducted prior to the recent exploration campaign but no records of production are believed to be available. After the cessation of exploration in 1996, small areas of the property have been worked periodically by small groups of artisanal miners (mineros), accessing the mineralized zones either by small pits or by short vertical shafts. During Micon’s site visit in July 2002, these miners were producing a small amount of vein type material, which is packed into sacks and delivered to one of the local small mills, where gravity separation is employed to recover the gold. The miners are paid by the mill owners on the basis of a fixed price per sack of material. No estimate of the amount of gold recovered to date from the property by these miners has been attempted, as this is considered to represent an insignificant quantity.

Geological Setting

The Choco Concessions cover oxide and sulphide gold mineralization that occurs in the western portion of the Pastora greenstone belt, which in turn forms part of the Proterozoic to Archean Guyana Shield. The prolific Guyana Shield extends

through Brazil, Guyana and the El Callao gold belt of eastern Bolivar State, Venezuela. The project area is underlain by metavolcanics and metasediments of the El Callao and Yuruari Formations, which have been intruded by younger felsic to mafic stocks and sill-like bodies. A significant regional marker unit, the late-phase Laguna diabase dyke, passes south of the currently defined mineralization.

The area is structurally complex and shearing is evident both within the stratigraphic sequence and near the margins of intrusive rocks. Large-scale gabbroic intrusions present in the concession area form topographic highs and are probably over-thrust blocks. Late dykes of intermediate composition are present and probably indicate a deep-seated intrusion that may be the cause of shearing. The dominant structural trends are north-south and east-west-trending with a secondary structural trend to the northeast.

Mineralization

The mineralized zones on the Choco 10 Concession cover an area measuring approximately 1,500 m by 1,500 m and have been subdivided into three main deposits including:

- Rosika: The largest deposit, which lies in the eastern and northern portion of the mineralized area. Rosika mineralization comprises north-south-trending steep to moderately east-dipping altered zones.
- Pisolita: The second largest deposit that comprises north-trending, shallow east and west-dipping quartz veins that form clay and laterite zone mineralization. The Pisolita deposit is hosted in a sequence of alternating pyritic and silicified and unaltered pillow basalt of the El Callao Formation and forms the western edge of the mineralized zone.
- Coacia: The smallest of the deposits located in the south-eastern portion of the mineralized area. Coacia mineralization comprises west-north-westerly-trending, steep north-easterly-dipping clay zone material that occurs at the contact of El Callao Formation basalt and adjacent pyroclastic rock of the Yuruari Formation.

The gold mineralogy of the Choco deposits is relatively simple. Very fine grained gold occurs in association with aggregates of limonite throughout the oxidized zone with gold particles measuring about one micrometre. Primary gold particles range in size to a few tens of micrometres and occur in fractures within pyrite grains or as isolated grains in quartz.

Drilling

The majority of holes were drilled using Aircore reverse circulation equipment. The program was conducted by Cavoex, a subsidiary company of the cement company Vencemos, using local personnel supervised and trained by individually contracted and experienced Australian drillers. Where hard rock was encountered, drilling was extended using either a reverse circulation down-the-hole hammer or HQ-sized diamond drilling equipment. For parts of the program, and particularly diamond drilling, the following contractors were used: St. Lambert, a Canadian contractor; Angostura Mining, the Venezuelan branch of Bradley Brothers; and Rotopercusiones del Caroni, a local drilling contractor.

The area drilled measures 1,500 m north to south and 1,100 m east to west. Many holes were drilled to a depth of only 30 m. The initial drilling was at a grid density of 50 m by 50 m. Later infill drilling was conducted a 50 m by 25 m and 25 m by 25 m intervals. A limited amount of validation drilling at Coacia and Pisolita was conducted on a grid of 12.5 m by 12.5 m.

Holes at Pisolita were drilled to the west at inclination of -50° although a few holes were oriented vertically or inclined to the east. The orientation of the holes was designed to provide representative samples of the Pisolita mineralization. The first holes drilled at Rosika were inclined -50° to the east, but later holes were drilled to the west. Drilling at this attitude provided the most representative samples on average. At Coacia holes were drilled at -50° to the southwest on a grid oriented at 210°. On average, this orientation provided representative samples. No down-hole survey data was collected for pre-1995 holes. Holes drilled during the 1995 campaign were surveyed using a Tropari down-hole gyrocompass and inclinometer.

Drilling to date is summarized in the following table.

Drill Campaign	Number of Holes	Metres Drilled
Pre-1995	983	33,868
1995	305	16,049
Total	1288	49,917

Micon has interpreted this extensive drilling database and the result of this interpretation is the new mineral resource block model, which is described below. The drilling was conducted by an independent contractor and was closely supervised by geologists. While there are inherent risks related to any drilling, sampling and assaying campaign, it is Micon's opinion that the level of supervision and the extent and nature of the quality control measures in place during the Choco drilling campaign were of a high standard. Micon considers that the data generated during the Choco drilling campaign are adequate for use in calculating the estimated mineral resources of the property.

Mineral Resource Estimate

Promiven provided an information memorandum that reported mineral resources for the Choco deposits. The block model that forms the basis of this estimate was described in a January 1996-dated BHPE report.

Micon reviewed the BHPE mineral resource estimate and considered that excessive sub-grade material had been included in the mineralization outlined. Micon considered that inclusion of material below the cut-off grade would potentially overstate the mineral resource tonnage and underestimate the gold grade. In Micon's opinion, recalculation of the Choco mineral resources was necessary to more accurately represent the economic potential of the Choco Concessions.

Interpretation

Micon created a mineral resource block model using the assay database and geological cross sections provided by Promiven. Initially, cross sections were generated at 25 m intervals showing drill hole assays and the BHPE mineral resource envelopes. The deposit was subdivided into three sectors: Pisolita, Rosika and Coacia. New mineral resource envelopes were outlined using a cut-off grade of 0.5 g/t gold. The new envelopes conformed to the Promiven and BHPE interpretations where this was deemed to be reasonable. Micon acknowledged BHPE's efforts to include only mineralized zones thought to demonstrate continuity and therefore some intercepts above the cut-off grade were not used to define mineral resource envelopes. Conversely, Micon found that Promiven had projected mineralization only very short distances beyond some drill holes and, unless information to the contrary existed, intercepts were projected either half the distance to adjacent holes or 25 m, whichever was less.

The continuity of mineralized zones and the reasonableness of the interpretation were checked by examining adjacent sections on a light table. This effort identified several inconsistencies in correlating assay data from hole to hole and these were corrected. In general, there is a reasonable degree of continuity demonstrated by some of the mineralized zones but these can be highly variable in thickness and grade. Other zones demonstrated very limited continuity.

Solid Modeling

Considering the limited continuity of some zones and the required timeframe in which to complete the work it was decided to create a solids model using the Gemcom extrusion feature. Solids were created by projecting cross sectional mineral resource envelopes half the distance to adjacent sections. Generally, the envelopes were extended 12.5 m either side of the section lines. On a few sections, where drilling had been conducted along lines at 50 m intervals it was necessary to project the mineral resource envelopes 25 m.

Two primary groups of solids were developed: laterite, representing Promiven's Zone 2 laterite mineralization, and non-laterite, comprising Promiven's Clay and Fresh (Zones 1 and 0) mineralization. Laterite and non-laterite solids were generated for each of the three principal zones: Pisolita (West), Rosika (East) and Coacia. The non-laterite solids model was further subdivided into the weathered (Clay) and unweathered (Fresh) zones using the wireframe contact surface provided by Hatch. The resulting solids represent the volume of mineral resources above a cut-off grade of 0.5 g/t gold.

Unlike a wireframe model where related cross sectional polygons are linked from section to section to create a 3-dimensional volume, extruded solids show abrupt step-like changes across the bisector plane of two adjacent cross sections. Micon considers the volume generated using the extrusion process to be a reasonable representation of the volume of mineralization and suitable for this type of study.

To be consistent with previous calculations a block size of 12.5 m by 12.5 m by 5 m high was used. The solids model generated was filled with regular-sized blocks and block partials were calculated to account for the portions of blocks that straddled the contacts of the mineralized zones.

Grade Interpolation

Micon utilized the solids model to extract the assay data to be used to create assay composites for block gold grade interpolation. All assay data falling within the solids model were compiled and flagged by zone and as either laterite or non-laterite.

High assays were cut to 35g/t Au to reduce the impact of outliers in interpolating block gold grades. Only one laterite assay was cut and the impact on the contained gold was negligible. The impact of cutting was more significant for non-laterite mineralization. The weighted average gold grade of cut data was lower by the following amounts: Pisolita 2%, Rosika 12%, Coacia 7%.

Assay composites were generated from the data extracted from the solids model. A composite length of 2.5 m was utilised and laterite and non-laterite data were compiled separately. All composite fragments less than 0.95 m were discarded as were 33 composites of nil grade that were derived from unsampled intervals within the solids model.

As expected, composites derived from cut assays are lower than uncut assay composites by the following amounts: Pisolita 2%, Rosika 12%, Coacia 7%.

Block model gold grades were interpolated using the inverse distance squared algorithm in Gemcom. The strategy developed was intended to minimise the smoothing of gold assays by restricting the search radius about each block and using a minimum number samples with which to interpolate a block grade.

Block model tonnage was calculated using a bulk density of 2.2 t/m³ for laterite and 2.7 t/m³ for non-laterite mineral resources. The same bulky density values were used for non-mineralized material of each zone.

Block models were created using both cut and uncut assay composites. No significant difference in tonnage resulted from the use of cut assay composites. However, the average grade of the cut model was lower and the net result was that the cut model contained 3.4% less gold at a cut-off grade of 1 g/t gold. Micon's estimate of mineral resources, as of October 1, 2002, for the Choco Concessions are presented in Table I below. Micon considers that this estimate of mineral resources is classified according to the definitions by the Canadian Institute of Mining, Metallurgy and Petroleum, as the CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines adopted by CIM Council on August 20, 2000, and contained in National Instrument 43-101.

Table I
CHOCO GOLD PROJECT MINERAL RESOURCE ESTIMATE
(As of October 1, 2002)

Cut-Off	Category	Tonnes	Grade	Gold	Gold
		(t)	Gold (g/t)	(kg)	(oz)
0.5	Indicated	9,584,655	2.37	22,677	729,075
0.5	Inferred	4,601,921	2.21	10,170	326,973
0.8	Indicated	8,470,000	2.59	21,937	705,284
0.8	Inferred	4,002,148	2.44	9,769	314,081
1.0	Indicated	7,501,970	2.81	21,058	677,016
1.0	Inferred	3,468,503	2.68	9,292	298,742
1.2	Indicated	6,534,429	3.06	19,995	642,851
1.2	Inferred	2,966,431	2.95	8,736	280,867
1.5	Indicated	5,530,000	3.44	18,404	591,689
1.5	Inferred	2,332,728	3.38	7,887	253,566

Comparison With Earlier Mineral Resource Estimates

The Micon mineral resource estimate contains lower tonnage but higher grade and higher contained gold than the mineral resource estimate previously prepared for Promiven. That previous estimate was generated by BHPE using a solids model defined with a 0.5 g/t gold cut-off grade, a cut assay composite database, grade interpolation by ordinary kriging and the same bulk densities described above. The variance between the two models is attributed to the following points:

- Micon strictly adhered to the 0.5 g/t gold cut-off grade used to define the mineralized zones. BHPE included some sub-grade material in its effort to trace mineralized structures. This additional volume of sub-grade material contributed to the higher tonnage contained in the BHPE model.
- The volume of sub-economic material included in the BHPE model contributed low grade assays to the database used to calculate assay composites for grade interpolation. These assays served to lower the overall grade of the deposits.
- BHPE compiled assay data for each of the 32 separate mineralized zones that were outlined. Top cut values ranging from 6.0 g/t Au to 25 g/t Au were applied to 25 of the 32 data sets. BHPE reported that application of these top cut values to assay data reduced the average composite grade by 10%. Micon used a top cut value of 35 g/t gold. The net effect was to reduce the weighted average laterite composite gold grade by 0.8% and to lower the weighted average non-laterite composite gold grade by 5.6%.
- BHPE used eight different search radii with principal axes ranging from 40 m to 200 m and an average of 20 two-metre composites (maximum 30) for block grade interpolation. Since the database contained a relatively high proportion of low grade values, low grades were smoothed throughout the block model resulting in a lower average grade. The maximum number of 2.5 m composites used to interpolate block grades for the Micon model was eight and the search radius for the two principal axes was 30 m. The Micon grade interpolation protocol was designed to limit the smoothing of high grade values and to generate block grades based on local composite values.

Micon's Interpretation and Conclusions

The area of the Choco 10 Concession being explored by Promiven/PMG until 1996 was subjected to thorough drilling in a program including almost 50,000 m of drilling. Much of this drilling was to a relatively shallow depth of 30 m.

The general organization of the data collection, the quality assurance/quality control checks that had been put in place and the fact that the sample materials on site have been orderly maintained all provided evidence to suggest that the administration of the Promiven exploration drill program and core logging, sampling and assaying was conducted to a very high standard.

Micon created a mineral resource block model using the assay database and geological cross sections provided by Promiven, with new mineral resource envelopes outlined using a cut-off grade of 0.5 g/t gold. The mineral resource estimate generated from this modeling indicates a significant gold deposit. Within the mineralized zone examined, approximately 25% of the resource is classified as "inferred". The overall conclusion is that the property merits further exploration, some of which will be designed to upgrade material from inferred to indicated category. For preparation of a feasibility study on the property, a higher proportion of indicated resources will be required, and any increase in the total resource will be of benefit to the project potential.

Except for a few relatively deep holes in the Rosika prospect area, detailed exploration for unweathered mineralization on the Choco Concessions is non-existent. Of the 1,288 holes drilled to date only 26 holes are deeper than 60 m and only six exceed 100 m in depth. There is considered to be excellent potential to discover mineralization below the weathered zone on the Choco Concessions. Systematic follow-up drilling is required to assess the most obvious leads currently available, which are beneath the currently defined oxide deposits at Pisolita and Coacia.

The deepest hole on the Choco Concessions is C0274, drilled to a depth of 221.4 m at the northern end of the Rosika prospect. This hole produced the best intersection encountered to date including 5.0 g/t gold over 50 m of drill hole length. The mineralized interval occurred within a wider intercept of 87.6 m averaging 3.6 g/t gold. No follow-up drilling has been conducted.

In order that the Choco Concessions can be developed effectively, a program of further exploration is warranted.

Recommendations

It is Micon's opinion that the Choco Concessions are of sufficient merit to justify the following recommended program.

Proposed Drilling Program

A significant proportion of mineral resources within the deposit has been assigned to the inferred category using the classification criteria described in the report above. However, Micon considers that it would be prudent to drill a series of holes to upgrade critical mineral resources from the inferred to the indicated category.

Micon has reviewed the distribution of indicated and inferred mineral resources within the pit area. Typically, inferred material is located between widely spaced drill holes where ore intercepts are more than 50 m apart. A total of 5,100 m of drilling in 68 holes is required to increase the proportion of indicated mineral resources. At an estimated cost of US\$40/m, including drilling, geology and assaying for reverse circulation drilling and US\$100/m for core drilling, the total cost of the required drilling is in the range of US\$315,000. It should be noted that in reviewing the drilling requirements Micon has only considered Choco mineral resources that occur within a preliminary open pit design.

Micon recommends that a series of confirmation drill holes be drilled to duplicate some of the earlier results for due diligence purposes. Five holes comprising 300 m should provide a satisfactory level of confidence in the existing data. The cost of this drilling would be approximately US\$15,000.

A program of deep exploration drilling is recommended to increase gold mineral resources. Micon has compiled a preliminary drilling plan comprising 3,940 m in 25 holes. The cost of this program is estimated to be US\$320,000 based on 1,250 m of reverse circulation drilling and 2,690 m of diamond core drilling.

The deep drilling program described above permits follow-up of the most obvious targets that warrant further work. These targets exist within the limits of known mineralization. In addition a comprehensive program is required to identify and prioritize targets that represent the best opportunity to increase gold mineral resources. The program envisioned includes the following elements:

- Review of all known mineralization within the area of the concessions.
- Compilation of all small-scale miners' workings including surveying the location of the workings by GPS.
- Review and compilation of all geological and geophysical data in order to establish an exploration model with which to establish and priority-rank targets. The targets sought include deep targets beneath known oxide mineralization, for example Pisolita prospect, which has not been subject to any deep drilling, as well as targets beyond the known mineralization.

A minimum program of 2,000 m of drilling would be required to assess the potential for undiscovered deep gold mineralization beneath the currently identified prospects. In addition, a further 2,000 m of drilling should be allocated to explore targets resulting from the exploration data compilation. The total cost of the data review and suggested drilling would be in the range of US\$350,000.

Considering the potential to upgrade the resource classification, to discover gold mineralization at depth and to discover mineralization in other parts of the concessions, Micon does not recommend that the results of subsequent phases of the program should be contingent upon positive results of the previous phase. The phases 1, 2 and 3 can be combined, subject to funding and availability of contractors, to rapidly develop the potential of the properties, be it through upgrading of known resource or extension into prospective zones previously not drilled due to limitations imposed on the previous exploration program.

The recommended definition and exploration programs are summarized in Table II.

Table II
SUMMARY OF PROPOSED DEFINITION AND EXPLORATION PROGRAMS

Phase	Program Description		Budget (US\$)
1	Definition drilling	- 5100 m	315,000
2	Deep exploration drilling on identified targets	- 3940 m	320,000
3	Compilation and drilling beneath known mineralization	- 2000 m	175,000
4	Exploration drilling on targets to be defined	- 2000 m	175,000
5	Due diligence confirmation drilling	- 1500 m	15,000
Total			US\$1,000,000

Other Recommended Activities

Micon has also recommended certain additional exploration work on the Choco Concessions. Other recommended activities are summarized below, for which a total budget of US\$650,000 is proposed:

- An update of the current resource model with results of drilling from the program described above.
- Confirmatory metallurgical testing with samples obtained from the above drilling program.
- Geotechnical evaluation of the potential sites for a tailings storage area and to provide slope design for potential open pits. This work can be conducted as part of the planned drilling campaign and under direction of a geotechnical consultant.
- Preparation of a feasibility study based on the updated resource model, mine design, estimate of mineable reserves, process plant and tailings storage design, and estimates of capital and operating cost.
- Commencement of environmental baseline survey and impact assessment studies.

The Company has completed the proposed program of definition drilling and is currently carrying out the remainder of the US\$1 million exploration program of drilling as described above and has commenced the additional US\$650,000 of exploration work also recommended by Micon.

Recent Developments

On August 20, 2003, the Company announced infill drilling results from the Choco concessions. In all, 57 holes totalling 5,048 metres have been drilled since the Company acquired the property, in addition to 1,288 holes totalling 49,917 metres which were drilled between the period 1992 and 1995.

Ten confirmation holes totaling 347 metres were drilled in January 2003 to confirm previous drilling results plus 36 infill holes totaling 3,535 metres were drilled as part of a program intended to upgrade critical mineral resources from the "inferred" category to the "indicated" category. Details for an additional ten infill holes are not yet available and will not be reflected in the feasibility study scheduled for completion on October 15, 2003. The feasibility study, which is being prepared by Micon, will include a revised resource estimate, detailed mine planning, engineering for the plant and infrastructure and estimates for capital and operating costs.

For the current drilling program, the Company used Triad Laboratories ("Triad") in Venezuela to prepare 250 gram samples which were shipped to ALS Chemex in Vancouver for fire assay and an atomic absorption finish. At Triad, 4 to 5 kg split HQ core samples were crushed to less than 0.5 mm and the 250 gram split was pulverised. Samples tested at ALS Chemex show greater than 90% of the sample passing the 200 mesh size. A comprehensive quality control program which includes blanks, replicates, standards and duplicates was employed. Both Triad and SGS X-RAL of Toronto were used as umpire laboratories. This quality control program included the use of certified standard reference samples from OREAS of Australia. Tom Neelands, P. Geo., was the Qualified Person for this program.

With the completion of the confirmation and infill drilling program, the Company is currently drilling a series of geotechnical holes required for mine planning and detailed engineering as part of the current feasibility study. It is expected that this drilling will be completed around August 30, 2003, at which time the Company will embark on a program of exploration drilling to follow up on drilling results to date.

Description of Offices

The Company occupies approximately 3,500 square feet of leased space at Suite 1502, 110 Yonge Street, Toronto, Ontario under a lease expiring March 31, 2006. Three employees are based in this office.

The Company also occupies approximately 10,700 square feet of leased space at Caracas, Venezuela under a month-to-month lease. Eight employees are based in this office. The Company maintains a project office complex close to its Choco 10 property, from which it is conducting its exploration program.

USE OF PROCEEDS

The gross proceeds from the offering of the Special Warrants was \$53,333,000.10. From these proceeds, the Company paid an aggregate commission of \$3,199,980.01 to the Underwriters. After deducting the Underwriters' commission and the expenses of the offering estimated to be \$300,000, the net proceeds from the offering will be \$49,833,020.09. Given the Company's estimated consolidated working capital surplus of \$8,863,414 as at June 30, 2003, the total funds available to the Company will be \$58,696,434.09. The Company expects to use these available funds as follows:

	<u>Cdn\$</u>
To fund development of the Company's Choco properties in Venezuela	\$28,500,000.00
To fund the Company's share of property acquisition and exploration costs related to Gold Fields joint Venture	\$7,000,000.00
To fund exploration costs related to the Company's Choco properties	\$14,000,000.00
General working capital	\$9,196,434.09
Total	<u>\$58,696,434.09</u>

The Company intends to spend the funds available to it from the sale of the Special Warrants as set out in this prospectus. However, there may be circumstances where, for sound business reasons, a reallocation of funds may be prudent or necessary. See "Narrative Description of the Business", "Management's Discussion and Analysis – Financing Activities" and "Use of Proceeds".

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Selected Consolidated Financial Information

The following table sets forth selected consolidated financial data of the Company. It should be read in conjunction with "Management's Discussion and Analysis" and the Company's financial statements and related notes that are included elsewhere in this prospectus.

BOLIVAR GOLD CORP.
Consolidated Financial Information

	Pro Forma Consolidated for the Fiscal Year ended December 31,	Fiscal Year ended December 31,		
	2002	2002	2001	2000
	US\$ (unaudited)	US\$	US\$	US\$
Revenues	\$ 3,095	\$ 3,095	\$ 687,628	\$ 3,393,192
Write downs	\$ 4,348,012	\$ -	\$ -	\$ 8,418,006
Operating loss	\$ 388,004	\$ 388,004	\$ 125,517	\$ 8,118,343
General & administrative expenses	\$ 390,539	\$ 390,539	\$ 194,094	\$ 146,503
Interest and financing expense	\$ 208,266	\$ -	\$ 71,366	\$ 277,664
Gain on sale of subsidiary	\$ 139,702	\$ 139,702	\$ -	\$ -
Loss on sale of oil and gas properties	\$ -	\$ -	\$ 883,052	\$ -
Taxes				
Current	\$ 94,750	\$ -	\$ -	\$ 34,608
Deferred	\$ -	\$ -	\$ -	\$ -
Loss for the year	\$ 4,865,467	\$ 187,374	\$ 1,112,163	\$ 8,406,799
Basic loss per share ⁽¹⁾	\$ 0.40	\$ 0.03	\$ 0.23	\$ 1.77
Total assets	\$ 4,914,313	\$ 959,778	\$ 571,273	\$ 5,492,138
Total long term debt	\$ -	\$ -	\$ -	\$ 1,936,192

	Fiscal Quarter ended March 31,	
	2003	2002
	US\$	US\$
	(unaudited)	
Revenues	\$ 2,929	\$ -
Operating gain (loss)	\$ 2,929	\$ -
General & administrative expenses	\$ 416,893	\$ 28,692
Foreign exchange gain	\$ 100,533	\$ 3,304
Taxes		
Current	\$ -	\$ -
Deferred	\$ -	\$ -
Loss for the quarter	\$ 313,431	\$ 25,388
Basic loss per share ⁽¹⁾	\$ -	\$ -
Total assets	\$ 14,445,163	\$ 959,778 ⁽²⁾
Total long term debt	\$ -	\$ -

(1) Fully diluted loss per share is not presented as its effect is anti-dilutive.

(2) As at December 31, 2002.

**Quarterly Earnings
(Unaudited)**

The following table sets forth certain information in respect of revenues and income of the Company for each of the eight fiscal quarters ended December 31, 2002.

(All figures in US\$)

Quarter	Revenues	Income (loss) for period	Basic income (loss) per share(1)
March 31, 2003	\$ 2,929	\$ (313,431)	\$ -
December 31, 2002	\$ 3,095	\$ (154,327)	\$ (0.03)
September 30, 2002	\$ -	\$ 128,632	\$ 0.02
June 30, 2002	\$ -	\$ (136,291)	\$ (0.02)
March 31, 2002	\$ -	\$ (25,388)	\$ -
December 31, 2001	\$ 2,451	\$ (119,099)	\$ (0.03)
September 30, 2001	\$ 45	\$ (67,171)	\$ (0.01)
June 30, 2001	\$ -	\$ (839,789)	\$ (0.17)

(1) Fully diluted loss per share is not presented as its effect is anti-dilutive.

Dividends

The Company has not paid dividends in the past and it does not expect to have the ability to pay dividends in the near future. The Company may retain future profits to finance further growth and, when appropriate, retire debt. However, the Company may consider paying dividends on the Common Shares in the future when circumstances permit, having regard to, among other things, its earnings, cash flow and financial requirements, as well as relevant legal and business considerations. All of the Common Shares are entitled to an equal share in any dividends declared and paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the operating results and financial position of the Company should be read in conjunction with the audited consolidated financial statements and related notes thereto included elsewhere in this prospectus. Amounts in the following discussion of the operating results and financial position of the Company are in United States dollars unless otherwise stated.

General

Bolivar Gold Corp. (formerly TecnoPetrol Inc.), a public company continued under the Business Corporations Act (Yukon), was previously an oil and gas exploration and production company with a focus on Colombia. In April 2001, the Company accepted an offer from Bioestratigrafica Ltda. and Bayheim Investments to purchase all of the Company's shares in PetroNorte for consideration of \$1.0 million in cash and the assumption of all of PetroNorte's liabilities other than accrued salaries and certain other liabilities (the "PetroNorte Transaction"). The PetroNorte Transaction closed in June 2001. As a result of the PetroNorte Transaction, at December 31, 2000, the Company wrote down its properties to net realizable value, equal to the \$1.0 million consideration received in the PetroNorte Transaction.

In 2001, the Company reverted to Empresa Colombiana de Petroleos ("Ecopetrol"), the state-owned company responsible for the management of oil and gas concessions, all but one oil and gas property not sold in the PetroNorte Transaction. In November 2002, the Company sold its sole remaining subsidiary, TP AVV, the holder of the last oil and gas property of the Company, to AC Oil. As a result of such sale (the "TP AVV Transaction"), the Company disposed of its sole remaining oil and gas property.

In October 2002, the Company announced its intention to proceed with a transaction whereby it would acquire a 70% interest in the Properties through its acquisition of Carisma and, ultimately, Promiven. This transaction was completed subsequent to the end of the fiscal year ended December 31, 2002. See "Risks, Uncertainty and Outlook" below.

The Common Shares traded on the TSXVE under the symbol "YTE" until March 19, 2003, after which date the Common Shares have traded under the symbol "BGC". Since July 18, 2003, the Common Shares have traded on the Exchange under the symbol "BGC". During the fiscal year ended December 31, 2002, the Company changed the currency under which the Common Shares are traded from US dollars to Canadian dollars.

Until June 2001, the Company's local administrative and legal activities, as well as all operational activities, were carried out through the Company's branch office in Bogotá (which was sold to a third party in the fiscal year ended December 31, 2002), while Canadian corporate activities were handled by its Toronto office where, until October 2001, it shared staff and office space with another public company. The Company now maintains an executive office in Toronto and a branch office in Caracas, Venezuela, which carries out all local administrative, legal and operational activities, as well as a project office near El Callao, Venezuela.

Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

Operating Results

The Company incurred an operating loss for the three month period ended March 31, 2003 of \$0.4 million (an operating loss of less than \$0.1 million for the three month period ended March 31, 2002), of which the primary components were salaries and benefits (\$0.2 million), travel (\$0.1 million) and professional fees (\$0.1 million). The operating loss for the three month period ended March 31, 2002 of less than \$0.1 million is attributable to general and administrative costs incurred in the quarter, as the Company had no revenue.

There was nominal revenue for the three month period ended March 31, 2003 (nil for the three month period ended March 31, 2002).

Expenses were higher in the first quarter of 2003 compared to the same period in 2002 primarily due to an increase in activity on management's part as it prepared for and completed the acquisition of the Venezuelan properties and related financings. As well, commencing March 1, 2003, the Company began making regular salary payments to management, as well as instalments on salary accrued to date. Prior to March 2003, most members of management received no salary but had their salary entitlement accrued. Professional fees and travel costs were \$0.1 million each for the three month period ended March 31, 2003 (less than \$0.1 million in the aggregate for the three month period ended March 31, 2002). Professional fees relate primarily to costs incurred in the period for financial advisory fees and services incurred in relation to regulatory filings and compliance. Travel expenses related primarily to travel to and from the acquired properties and in completing the financing and acquisition of the properties.

Final loss in the three month period ended March 31, 2003 was \$0.3 million (less than \$0.1 million for the three month period ended March 31, 2002) and was favourably impacted by a foreign exchange gain of \$0.1 million arising from an increase in the value of the Canadian dollar against the US dollar.

Liquidity and Financial Resources

The Company had working capital at March 31, 2003 of approximately \$6.3 million (\$0.2 million at December 31, 2002). Current liabilities of \$3.4 million (\$0.4 million at December 31, 2002) were comprised of accounts payable and accrued liabilities and due to affiliated companies. Included in current liabilities was \$2.95 million payable to the vendor of the Venezuelan properties as a lump sum payment in lieu of the original \$3.2 million obligation payable over the next three years. Of the remainder, \$0.2 million related to accrued but unpaid salaries owed to officers and directors of the Company and \$0.1 million to liabilities assumed upon the acquisition of the Venezuelan properties.

Deferred acquisition costs for the three month period ended March 31, 2003 of \$0.3 million (\$0.2 million at December 31, 2002) related to costs, professional fees and other expenses the Company incurred in acquiring the properties in Venezuela.

Financing Activities

During the three-month period ended March 31, 2003, the Company completed one private placement of 0.4 million units at Cdn.\$0.35 per unit for gross proceeds of \$0.1 million; each unit consisting of one Common Share and one-half of one share purchase warrant, each whole warrant being exercisable for 18 months at Cdn.\$0.50. During the period, holders of 53,333 share purchase warrants of the Company exercised their warrants for gross proceeds of \$21,622, and the Company also completed a private placement of 20.1 million special warrants at Cdn.\$0.75 for gross proceeds of \$10.5 million. Each special warrant was exercisable, without the payment of any additional consideration, for a unit consisting of one Common

Share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional Common Share at a price of Cdn.\$1.10 for a period of five years. The agents acting in connection with the issuance of these special warrants received a commission of 6% of the gross proceeds, equal to Cdn.\$0.9 million, as well as compensation options exchangeable into 1,239,786 units at Cdn.\$0.75 until September 17, 2004. These units have the same characteristics as those issued to subscribers for the special warrants. During the period, the Company also closed a separate financing on the same terms as the issuance of the special warrants for an additional 40,000 special warrants for proceeds of approximately \$20,000. All of the special warrants were automatically exercised into Common Shares and share purchase warrants on June 4, 2003.

During the three-month period ended March 31, 2002, the Company completed one private placement of 0.3 million units at \$0.19 per unit, each unit consisting of one Common Share and one share purchase warrant, exercisable at \$0.38 per warrant until February 28, 2003. Net proceeds of \$63,000 were utilised for working capital purposes.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Operating Results

For the fiscal year ended December 31, 2000 through to June 2001, the Company was an oil and gas exploration and production company focused on Colombia. Throughout the fiscal years ended December 31, 2001 and 2002, the Company was involved in changing its business focus and is now engaged in the investigation and acquisition of mineral properties. Substantially all of the efforts of the Company were devoted to these business activities and, as such, the Company was considered to be in the development stage for such fiscal years. The Company operated in Colombia through Association Contracts with Ecopetrol, pursuant to which Ecopetrol had the right to become a 30% joint venture partner in any commercially developed field. The Company also funded the acquisition and exploration of its oil and gas properties through joint ventures and similar arrangements with third parties, with the result that, as of December 31, 2000, its interests in its properties ranged from 25% to 62.5%. By December 31, 2002, all such properties and interests had been disposed of by the Company.

The Company incurred an operating loss for the fiscal year ended December 31, 2002 of \$0.4 million, all of which was attributable to general and administrative costs incurred in the year. Operating loss of \$0.1 million for the fiscal year ended December 31, 2001 related to operations of PetroNorte, which were still consolidated with that of the Company until June 30, 2001. The Company incurred an operating loss for the fiscal year ended December 31, 2000 of \$8.1 million, which arose as a result of the Company's write-down of its oil and gas properties to realizable value.

There was nominal revenue for the fiscal year ended December 31, 2002 and revenue of \$0.7 million for the fiscal year ended December 31, 2001, consisting of oil sales of \$0.4 million, pipeline revenue of \$0.2 million and other income of less than \$0.1 million. No oil and gas or pipeline revenue was recorded by the Company after the first quarter of fiscal 2001 as the execution of the agreement to sell the Company's operating assets in the PetroNorte Transaction and the completion of the PetroNorte Transaction both occurred within the second quarter of fiscal 2001. Revenue for the fiscal year ended December 31, 2000 of \$3.4 million related to PetroNorte and consisted of oil sales of \$2.1 million, pipeline revenue of \$1.3 million and other revenue of less than \$0.1 million.

Operating costs were nil for the fiscal year ended December 31, 2002. Operating costs for the fiscal year ended December 31, 2001 were \$0.6 million, all of which related to PetroNorte, and were higher than typical for the Company due to the need to upgrade equipment at certain of PetroNorte's fields, as well as due to the termination of certain operations in connection with the PetroNorte Transaction. Operating costs for the fiscal year ended December 31, 2000 were \$2.2 million and were higher than typical for the Company, primarily due to the increased costs of pipeline maintenance and insurance, as well as the accrual of \$0.1 million for possible environmental reclamation on one of its properties.

General and administrative costs of \$0.4 million for the fiscal year ended December 31, 2002 consisted of Canadian corporate office, professional fees, accrual of unpaid salaries and miscellaneous administration and investor relations costs. General and administrative costs of \$0.2 million for the fiscal year ended December 31, 2001 consisted of Canadian corporate office, professional fees and miscellaneous administration and investor relations costs. General and administrative costs were higher in fiscal 2002 than in fiscal 2001 primarily due to an accrual of unpaid salaries to the Company's executive management from September 2002 onwards. General and administrative costs of \$0.1 million for the fiscal year ended December 31, 2000 consisted of Canadian corporate office, professional fees and miscellaneous administration and investor relations costs and are lower than for fiscal 2001 primarily due to the termination of its cost-sharing arrangement with the other public company in 2001.

Business development costs of \$0.2 million for the fiscal year ended December 31, 2002 (less than \$0.1 million for the fiscal year ended December 31, 2001 and nil for the fiscal year ended December 31, 2000) relate to costs incurred in the period for the identification of business opportunities for the Company, identification and due diligence examinations of the Properties and related professional fees.

Gain on settlement of labour liability of \$0.3 million for the fiscal year ended December 31, 2002 (nil for the fiscal years ended December 31, 2001 and 2000) relates to the settlement by the Company for \$0.1 million of the lawsuit launched by its former President for unpaid salary of \$0.4 million, which had been fully accrued by the Company.

Gain on sale of TP AVV of \$0.1 million for the fiscal year ended December 31, 2002 (nil for the fiscal years ended December 31, 2001 and 2000) relates to the sale of TP AVV in November 2002 and is the net result of the assumption by AC Oil of liabilities of TP AVV, including a lawsuit launched in Colombian labour court for unpaid salary by a former employee of the Company, for which the Company had accrued \$0.1 million, and a technology transfer fee owed to Ecopetrol of less than \$0.1 million, less a government bond transferred to AC Oil.

The fiscal year ended December 31, 2002 showed a loss of \$0.2 million, approximately \$0.4 million less than it would have been but for the settlement of the above-mentioned lawsuit and gain on the sale of TP AVV. For the fiscal year ended December 31, 2001, the loss was \$1.1 million and consisted of operating loss of \$0.1 million, net interest expense of \$0.1 million (\$0.3 million in the fiscal year ended December 31, 2000), business development expense of less than \$0.1 million and a loss on the sale of the Company's oil and gas properties of \$0.9 million arising primarily from labour liabilities, which remained with the Company. For the fiscal year ended December 31, 2000, loss of \$8.4 million was wholly attributable to the \$8.4 million write-down to net realizable value of the Company's oil and gas properties.

PetroNorte Transaction

For the fiscal year ended December 31, 2001, the only significant change to the Company's assets and liabilities was an increase in net book value of approximately \$0.7 million, attributable to the sale of PetroNorte and the resulting transfer to the purchasers of PetroNorte of certain liabilities of PetroNorte and all of its bank debt, as well as to the Company's ability to settle some liabilities with non-cash payments, specifically the issuance of Common Shares. Over half (\$0.4 million) of the accrued liabilities for the fiscal year ended December 31, 2001 consisted of accrued but unpaid salary, which amount was settled for \$0.1 million in the fiscal year ended December 31, 2002, as discussed above in "Operating Results".

Interest in European Real Estate

In April 2002, the Company announced that it was purchasing a 50% interest in ERE, the sole asset of which was an agreement to acquire a property and associated buildings located in Siena Province, Italy known as "Montingegnoli". In consideration for the acquisition of its interest in ERE, the Company agreed to issue to Toscana, the parent of ERE, that number of shares equal to 90% of the Company's issued and outstanding capital at the time. The Company also agreed to make the Deposits on the acquisition of the Montingegnoli property. Due to an inability to restructure its agreement with Toscana to satisfy regulatory concerns, in May 2002 the Company announced that it would not proceed with the acquisition of the 50% interest in ERE. The Company agreed to transfer to Toscana the liability arising from \$400,000 in loans obtained by the Company from third parties (which money was used by the Company to fund its obligation to pay the Deposits) in consideration for the cancellation by the Company of all rights to \$400,000 of the Deposits, leaving an outstanding balance due from Toscana on the Deposits of \$161,000. The Company also agreed to pay \$73,735 of consulting, legal and other fees incurred in evaluating the project and assigned the work product therefrom to Toscana in consideration of Toscana's agreement to (i) grant the Company a 1% interest in ERE, and (ii) repay the remaining balance of \$161,000, plus the \$73,375 of fees paid, from cash flow of ERE.

Liquidity and Financial Resources

The Company had a working capital surplus at December 31, 2002 of approximately \$0.2 million. Current liabilities of \$0.4 million at December 31, 2002 consisted entirely of accounts payable and accrued liabilities, primarily consisting of \$0.1 million relating to accrued but unpaid salaries owed to executive management and \$0.2 million in accounts payable to professional advisors relating to the assessment of the Properties and other miscellaneous professional fees.

The Company had a working capital deficit of approximately \$0.1 million at December 31, 2001. Current liabilities of \$0.7 million at December 31, 2001 consisted entirely of accounts payable and accrued liabilities, with the majority of that amount

(\$0.4 million) relating to accrued but unpaid salaries owed to certain employees of PetroNorte, which the Company assumed and which the Company has paid in cash or through the issuance of Common Shares.

The Company had a working capital deficit of \$0.8 million at December 31, 2000. Current liabilities of \$1.9 million at December 31, 2000 consisted of \$1.7 million in accounts payable, with the balance consisting of the current portion of loans payable.

Financing Activities

On August 1, 2002, the Company consolidated its Common Shares on a one-for-six basis. All share capital numbers used herein reflect post-consolidation Common Shares and, where necessary, have been adjusted to reflect such consolidation.

During the fiscal year ended December 31, 2002, the Company completed four private placements. The first was for 333,333 units at Cdn\$0.30 per unit, each unit consisting of one Common Share and one Common Share purchase warrant, exercisable at Cdn\$0.60 per warrant until February 28, 2003. Net proceeds of \$63,000 were utilized for working capital purposes. The next two private placements were for 3,555,553 units and 2,141,250 units, respectively, each unit priced at Cdn\$0.16 per unit and consisting of one Common Share and one-half Common Share purchase warrant. Each whole warrant is exercisable at Cdn\$0.24 until March 26, 2004 and April 9, 2004, respectively. Combined net proceeds of \$0.6 million were utilized for working capital purposes and corporate activities related to the acquisition of the Properties. In December 2002, the Company completed another private placement of 1,085,714 units at Cdn\$0.35 per unit, each unit consisting of one Common Share and one-half Common Share purchase warrant. Each whole warrant is exercisable at Cdn\$0.50 until June 20, 2004. Net proceeds of \$0.2 million were utilized for working capital purposes and corporate activities related to the acquisition of the Properties. Subsequent to year-end, the Company completed another private placement for net proceeds of less than \$0.1 million.

No private placements were completed in the fiscal year ended December 31, 2001, although in December 2001, the Company issued 524,125 Common Shares in exchange for the cancellation of \$0.2 million in accrued but unpaid salaries, reducing liabilities by that same amount.

During the fiscal year ended December 31, 2000, the Company completed a private placement of 625,000 Common Shares for proceeds of \$0.4 million.

At December 31, 2000, the Company had total debt of \$1.9 million, all of which was classified as current in fiscal 1998 as repayment schedules were not met due to cash flow problems. In 1999, the Company renegotiated its total debt, all of which was assumed by the purchasers in the PetroNorte Transaction.

Capital Expenditures

The Company made nominal capital expenditures in the fiscal year ended December 31, 2002 and none in the fiscal year ended December 31, 2001. Capital expenditures in the fiscal year ended December 31, 2000 were \$0.8 million and consisted almost entirely of deferred exploration and development costs of \$0.8 million.

Risks, Uncertainties and Outlook

By mid-2000, the Company felt that, with limited funds available to finance its exploration programs and few joint venture opportunities available due to the volatile political and economic climate in Colombia, it would be extremely difficult to turn its attractive land position in Colombia into producing fields. As a result, the decision was made to turn this land position into cash through the PetroNorte Transaction and seek an alternative business in which to invest. Accordingly, by the end of the fiscal year ended December 31, 2002, the Company had sold all of its oil and gas assets or had reverted them to Ecopetrol.

The Company entered into the Bolivar-Carisma Agreement, dated as of February 5, 2003, to acquire all of Carisma's issued and outstanding shares. Carisma's sole asset was a right to purchase all of the issued and outstanding shares of Promiven, which in turn had a 70% interest in PMG. PMG is the indirect title-holder to the Properties and is a joint venture between Promiven and FMO, a wholly-owned subsidiary of CVG, which is a Venezuelan government-owned corporation responsible for the mineral development of the Guayana region of Venezuela. On February 28, 2003, the Company completed the acquisition of Carisma in escrow, pending final Exchange approval and completion of the special warrant financing, discussed below. Final Exchange approval was received on March 17, 2003.

Consideration for the acquisition consisted of the issuance of 5,000,000 Common Shares to Newfield, as well as the assumption of Carisma's purchase obligations with regard to the Properties. These obligations consisted of a payment of \$0.3 million on closing, \$1.0 million on each of the first and second anniversaries of closing, and \$1.2 million on the third anniversary of closing. Carisma has also agreed to pay Cemex \$0.75 million on each of the eighth and ninth anniversaries of the Properties being placed into production or a single instalment of \$1.5 million (or the balance of \$1.5 million not then paid) within 90 days after reaching a total production of 700,000 ounces of gold from any of the Properties. The Company, on behalf of Carisma, was required to provide a guarantee of payment by way of three irrevocable letters of credit in favour of Cemex, in the total amount of \$3.2 million, to be delivered no later than June 4, 2003. On May 27, 2003, the Company, Cemex and Carisma signed an addendum to the Carisma-Cemex Agreement pursuant to which the Company paid Cemex a lump sum of US\$2,950,000 in final satisfaction of the Promiven Purchase Price and the obligation to deliver the Letters of Credit was terminated. A sliding scale royalty ranging between \$10 and \$20 per ounce of gold (depending on prevailing gold prices) is also payable on all production from the Properties that exceeds an aggregate of 700,000 ounces.

On March 17, 2003, the Company completed the first closing of a special warrant financing (the "Special Warrant Financing"), raising gross proceeds of Cdn.\$15.5 million through the sale of 20,663,103 special warrants at Cdn.\$0.75 each. On April 23, 2003 and May 27, 2003 the Company completed second and third closings of the Special Warrant Financing and issued 1,535,000 special warrants and 3,401,897 special warrants, respectively, at Cdn.\$0.75 each. Also on March 17, 2003, the Company closed a separate offering of 40,000 special warrants at Cdn.\$0.75 each. Each special warrant issued by the Company was exercisable, without the payment of any additional consideration, for a unit consisting of one Common Share and one-half of one share purchase warrant. The special warrants were automatically exercised into Common Shares and share purchase warrants on June 4, 2003. Each whole share purchase warrant entitles the holder to purchase one additional Common Share at a price of Cdn.\$1.10 for a period of five years.

The agents for the Special Warrant Financing received a commission of 6% of the gross proceeds and compensation options exercisable into an aggregate of 1,536,000 units at Cdn.\$0.75 per unit until September 17, 2004.

In April 2003, the Company announced that it had reached agreement to acquire certain assets relating to Hecla's Grouse Creek Mill. The Company intends to transport this equipment, which is designed to process 5,400 tonnes of gold ore a day, to Venezuela and install it on the Choco 10 property, where it will provide milling facilities for any ore produced from the Properties. The acquisition of this equipment is expected to enhance the overall economics of the Choco project as a result of the lower-than-planned cost of building a mill and greater capacity, as the Company's original development plan envisioned a 4,000 tonne per day operation. As part of its detailed engineering, the Company will review alternatives in order to take advantage of this additional capacity.

The Special Warrant Financing provided the Company with adequate cash reserves to complete its exploration program on the Properties, complete a feasibility study and commence development of the Properties. Additional financing will be required to complete development of the Properties and to put them into production, and Carisma has entered into an agreement with Endeavour Financial Corporation Limited ("Endeavour") whereby Endeavour is assisting Carisma with obtaining any debt financing required for the development of the Properties. The Company has assumed Carisma's obligations under the Endeavour agreement, and has expanded Endeavour's mandate to include possible financings, business combinations transactions, acquisitions or dispositions of assets or companies or certain other transactions involving Carisma.

The Company felt that, with the uncertain global political situation and related rise in the price of gold, a move into the gold sector was warranted, particularly as many members of management have previous experience with gold exploration and production properties. The success of the Company's investment in the Properties will be subject to a number of other factors, including, among others, continued political stability in Venezuela, gold prices continuing at or near their present levels, and the Company's ability to obtain adequate financing for the exploration and development of the Properties. All of the Properties are at the exploration stage and do not have any known mineral reserves.

CONSOLIDATED CAPITALIZATION

The Company is authorized to issue an unlimited number of common shares without par value, being the Common Shares, of which there were 43,653,604 Common Shares outstanding as fully paid and non-assessable shares as of August 22, 2003. For a description of the attributes of the Common Shares, see "Description of the Securities Distributed".

The following represents the Company's share capital both before and after giving effect to the exercise of the Special Warrants:

Designation of Shares	Number of Shares Authorized	Outstanding on December 31, 2002	Outstanding on August 22, 2003	As at August 22, 2003 after giving effect to the exercise of the Special Warrants ⁽¹⁾
		(Audited)	(Unaudited)	(Unaudited)
Common ⁽²⁾	Unlimited	12,535,271	43,653,604	83,159,530

(1) Assumes the exercise of the Special Warrants but not the Warrants.

(2) As at the date of this prospectus, the Company has a number of securities outstanding and is party to a number of agreements which could result in the issuance of up to 23,955,257 additional Common Shares of the Company. See "Options and Warrants to Purchase Common Shares".

OPTIONS AND WARRANTS TO PURCHASE COMMON SHARES

Introduction

The Company has granted a number of stock options, issued a number of warrants and entered into agreements pursuant to which up to an aggregate of 23,955,257 Common Shares may be issued in the future. The following is a summary of these stock options, warrants and the agreements.

Stock Options

The Company has a formal plan for the granting of stock options to its directors, officers, employees and consultants (the "Stock Option Plan"). Under the Stock Option Plan, a maximum of 8,045,341 Common Shares are reserved for issuance on the exercise of stock options. Grants of stock options are made by the directors of the Company, are for a maximum term of five years and vest every three months in equal one-sixth tranches over an eighteen-month period from the date of grant. All of the executive officers and directors of the Company have been granted stock options in the past year. The following is a summary of the stock options outstanding on August 22, 2003:

Category	Date of Grant	Date of Expiry	Common Shares Underlying Options Granted	Exercise Price	Market Value of Underlying Securities on the Date of Grant ⁽¹⁾
All executive officers of the Company (five individuals)	March 13, 2002	March 13, 2007	250,000	\$0.60	\$ 0.21
	September 17, 2002	September 17, 2007	425,000	\$0.35	\$ 0.35
	December 11, 2002	December 11, 2007	80,000	\$0.60	\$ 0.48
	March 19, 2003	March 19, 2008	1,070,000	\$0.60	\$ 0.68
	June 16, 2003	June 16, 2008	2,375,000	\$0.56 - \$0.70	\$0.70
All directors who are not also executive officers of the Company (three individuals)	September 17, 2002	September 17, 2007	60,000	\$ 0.35	\$ 0.35
	December 9, 2002	December 9, 2007	60,000	\$ 0.60	\$ 0.45
	June 16, 2003	June 16, 2008	165,000	\$0.56 - \$0.70	\$0.70
	July 3, 2003	July 3, 2008	85,000	\$0.85	\$0.85
All other employees of the Company (six individuals)	March 19, 2003	March 19, 2008	80,000	\$ 0.60	\$ 0.68
	June 16, 2003	June 16, 2008	455,000	\$0.56 - \$0.70	\$0.70
Consultants to the Company (four individuals)	October 17, 2002	October 17, 2007	75,000	\$ 0.35	\$ 0.35
	June 16, 2003	June 16, 2008	60,000	\$0.56	\$0.70

(1) Calculated as the closing price of the Common Shares on the Exchange or the TSXVE, as the case may be, on the date of grant. The closing price of the Common Shares on the Exchange on August 22, 2003 was \$1.43.

All of the stock options are non-transferable and terminate on the earlier of the expiry date or the 90th day following the day on which the director, officer, employee or consultant, as the case may be, ceases to be a director, officer, employee or consultant of the Company. The options are adjusted in the event of a share consolidation or subdivision or other similar change to the Company's share capital.

Warrants

From time to time the Company has granted warrants and other rights exercisable for Common Shares of the Company. The following is a summary of the warrants and other rights to purchase Common Shares issued by the Company which were outstanding as of the close of business on August 8, 2003:

Date of Issue	Security	Date of Expiry	Number of Common Shares Issuable Upon Exercise	Exercise Price	Market Value of Underlying Securities on the Date of Issue ⁽¹⁾
September 26, 2002	Warrants	March 26, 2004	1,777,775	\$0.24	\$0.35
October 9, 2002	Warrants	April 9, 2004	1,070,625	\$0.24	\$0.35
December 20, 2002	Warrants	June 20, 2004	542,857	\$0.50	\$0.63
January 13, 2003	Warrants	July 13, 2004	200,000	\$0.50	\$0.64
June 4, 2003	Warrants	March 17, 2008	12,820,000	\$1.10	\$0.73
June 4, 2003	Broker Warrants	September 17, 2003	1,536,000	\$0.75	\$0.73
June 4, 2003	Broker Unit Warrants	September 17, 2003	768,000	\$1.10	\$0.73

(1) Calculated as the closing price of the Common Shares on the Exchange or the TSXVE, as the case may be, on the date of issue. The closing price of the Common Shares on the Exchange on August 22, 2003 was \$1.43.

PRIOR SALES

The following table sets forth the details of all issuances or sales of Common Shares by the Company within the twelve months prior to the date hereof.

Date of Issuance or Sale	Description of Transaction	Aggregate Number of Common Shares Issued	Price Per Common Share (\$)
September 26, 2002	Private placement of units consisting of one Common Share and one-half of one warrant	3,555,553	0.16
October 9, 2002	Private placement of units consisting of one Common Shares and one-half of one warrant	2,141,250	0.16
December 20, 2002	Private placement of units consisting of one Common Shares and one-half of one warrant	1,085,714	0.35
January 13, 2003	Private placement of units consisting of one Common Shares and one-half of one warrant	400,000	0.35

Date of Issuance or Sale	Description of Transaction	Aggregate Number of Common Shares Issued	Price Per Common Share (\$)
February 28, 2003	Exercise of \$0.60 warrants expiring February 28, 2003	53,333	0.60
March 17, 2003	Issuance of Common Shares to Newfield ⁽¹⁾	5,000,000	0.30
June 4, 2003	Issuance of Common Shares upon the deemed exercise of special warrants	25,640,000	0.75
August 21, 2003	Issuance of Common Shares upon exercise of stock options	25,000	0.35

(1) See “General Development of the Business - Significant Acquisition”.

PRICE RANGE AND TRADING VOLUME OF COMMON SHARES

The Common Shares trade on the Exchange under the symbol “BGC”. Prior to July 18, 2003, the Common Shares traded on the TSXVE under the same symbol and, prior to March 19, 2003, the Common Shares traded on the TSXVE under the symbol “YTE”. The following table sets forth the range of high and low closing prices and trading volume information for the Common Shares as reported on the Exchange and the TSXVE for the periods indicated.

	Price Range and Trading Volume ⁽¹⁾		
	High	Low	Volume
2003			
August (1 – 22 inclusive)	1.65	1.20	4,809,386
July	1.65	0.75	4,752,351
June	0.90	0.70	669,583
May	0.80	0.60	153,064
April	0.70	0.55	286,623
First Quarter	0.83	0.60	1,434,313
2002			
Fourth quarter	0.63	0.34	1,986,058
Third quarter	0.62	0.06	1,922,284
Second quarter	0.45	0.36	18,333
First quarter	0.54	0.09	149,337
2001			
Fourth quarter	0.09	0.09	35,000
Third quarter	0.27	0.02	457,589

(1) On August 2, 2002, the Company consolidated its shares on a one-for-six basis. On August 29, 2002, the Company changed its trading currency from US\$ to Cdn\$. Accordingly, the information in the table has been adjusted to reflect the consolidation and change in trading currency, as appropriate.

ESCROWED SECURITIES

The 5,000,000 Common Shares issued to Newfield pursuant to the Company’s acquisition of Carisma are subject to the escrow requirements of the TSXVE which provide for such Common Shares to be released from escrow in instalments over an eighteen month period with 25% released on March 19, 2003, and a further 25% to be released on each of September 19,

2003, March 19, 2004 and September 19, 2004. The TSXVE has also required all of the Common Shares, warrants and stock options of the Company held by the Company's directors, officers and insiders, and insiders of Newfield and Carisma to be placed in escrow for a period of eighteen months, with 25% released on March 19, 2003, and a further 25% to be released on each of September 19, 2003, March 19, 2004 and September 19, 2004. The following table sets forth information regarding the securities of the Company held in escrow as of August 22, 2003:

Designation of Class	Number of Securities held in escrow⁽¹⁾	Percentage of Class
Common Shares	6,120,407	14.0%
Warrants to purchase Common Shares	1,022,655	6.2%
Options to purchase Common Shares	675,000	12.8%

(1) These securities are held in escrow pursuant to a value security agreement dated February 28, 2003 among the Company, various security holders and Equity Transfer Services Inc., as escrow agent.

PRINCIPAL SHAREHOLDERS

There are no shareholders which, to the knowledge of the Company, beneficially own, directly or indirectly, or exercise control or direction over, more than ten percent of the Company's issued and outstanding Common Shares.

DIRECTORS AND SENIOR OFFICERS

Directors and Senior Officers

The following table sets forth, for each of the directors and executive officers of the Company, the person's name, municipality of residence, position with the Company, principal occupation, holdings of Common Shares and, if a director, the date on which the person became a director. Each of the directors of the Company has been elected or appointed to serve until the next annual meeting of shareholders of the Company.

Name and Municipality of Residence	Position with the Company	Principal Occupation or Employment for Past Five Years⁽¹⁾⁽²⁾	Director Since	Number and Percentage of Common Shares Held⁽¹⁾
Jose Francisco Arata Pino Torinese, Italy	Executive Vice President, Exploration and Director	Executive Vice President, Exploration of the Company	June 9, 1997	437,965 ⁽⁴⁾ 1.0 %
Miguel de la Campa ⁽³⁾ Madrid, Spain	President and Chief Operating Officer and Director	President and Chief Operating Officer of the Company	June 9, 1997	316,813 ⁽⁴⁾⁽⁵⁾ 370,046 ⁽⁴⁾⁽⁶⁾ 1.6%
Serafino Iacono Coral Gables, Florida	Chairman and Chief Executive Officer	Chairman and Chief Executive Officer of the Company	June 9, 1997	19,000 ⁽⁴⁾ 370,046 ⁽⁴⁾⁽⁶⁾ 0.9%
Perry Dellelce Toronto, Ontario	Director	Partner, Wildeboer Rand Thomson Apps & Dellelce, LLP, a law firm since 1993	June 16, 2003	40,000 0.1%
Andres Carrera ⁽³⁾ Madrid, Spain	Director	Business Consultant	July 30, 2002	1,020,199 ⁽⁴⁾ 5.7%
Stephen Wilkinson ⁽³⁾ North Vancouver, British Columbia	Director	President and Director of ValGold Resources Ltd., a mineral exploration company,	July 3, 2003	Nil

Name and Municipality of Residence	Position with the Company	Principal Occupation or Employment for Past Five Years ⁽¹⁾⁽²⁾	Director Since	Number and Percentage of Common Shares Held ⁽¹⁾
		since September 2002; from 1999 to September 2002, President and Director of Northern Orion Explorations Ltd.; from 1996 to 1999, Mining Analyst, RBC Dominion Securities Inc., an investment dealer		
Peter Volk Toronto, Ontario	Corporate Secretary and Legal Counsel	Corporate Secretary and Legal Counsel of the Company	n/a	500 0.01%
Robert E. Doyle Toronto, Ontario	Chief Financial Officer	Chief Financial Officer of the Company since January 2003; Executive Vice President and Chief Financial Officer of HMZ Metals Inc., a corporation engaged in mining and smelting activities in China, from November 2001 to December 2002; Director, Equity Research, Credit Suisse First Boston Securities (Canada) Inc., a securities dealer, from August 1997 to October 2001.	n/a	Nil

- (1) This information, not being within the knowledge of the Company, has been furnished by the respective directors individually.
- (2) All of the above individuals have held the positions set forth above for the previous five years except as set forth under “Directors and Senior Officers – Management” below.
- (3) Member of the audit committee of the board of directors of the Company.
- (4) These Common Shares are also subject to a value security escrow agreement dated February 28, 2003. See “Escrowed Securities”.
- (5) Mr. de la Campa also has an interest in Orinoquia (see note 6).
- (6) These Common Shares are held by Orinoquia Belt C.A. (“Orinoquia”). All of Orinoquia’s common shares are jointly held by Mr. de la Campa and a trust to which Serafino Iacono provides investment advice.

Management

Biographical information for each member of management of the Company follows. All members of management are full-time employees. None are currently subject to a non-competition or non-disclosure agreement with the Company.

Serafino Iacono, age 43, Chairman, Chief Executive Officer and Director. Responsible for the strategic direction for the Corporation and primarily responsible for the Company’s equity-raising efforts. Mr. Iacono was appointed to his present positions in September 2002 and, from July 1997, served as Executive Director of the Company. From September 1993 to October 2001, Mr. Iacono’s principal occupation was as Executive Director of Bolivar Goldfields Ltd. (now BluePoint Data Storage, Inc.), an unaffiliated company. Mr. Iacono has been involved in the mineral exploration industry since 1988.

Miguel de la Campa, age 58, President, Chief Operating Officer and Director. Responsible for the day-to-day operations of the Company and, in particular, Venezuelan regulatory matters. Mr. del la Campa has Bachelor’s and Master’s degrees in International Economics from Georgetown University. Mr. del la Campa was appointed to his present positions in September 2002 and, from July 1997, served as Executive Director of the Company. From September 1993 to October 2001,

Mr. de la Campa's principal occupation was as Executive Director of Bolivar Goldfields Ltd. (now BluePoint Data Storage, Inc.), an unaffiliated company. Mr. de la Campa has been involved in the mineral exploration industry since 1993.

Jose Francisco Arata, age 45, Executive Vice President, Exploration and Director. Responsible for the planning and implementation of the Company's drilling and exploration program, as well as due diligence on potential properties. Mr. Arata has a degree in Geology from the University of Torino (Italy) and a degree in Geological Engineering from the Central University of Venezuela. Mr. Arata was appointed to his present position in September 2002 and, prior thereto, his principal occupation was as Executive Vice President of the Company. Mr. Arata has been involved in the mineral and oil and gas exploration industries since 1982.

Robert E. Doyle, age 49, Chief Financial Officer. Responsible for the oversight and control of the Company's finances, as well as primarily responsible for investor relations. Mr. Doyle has a business degree (honours) from the University of Western Ontario and was granted his C.A. designation in 1980. Mr. Doyle was appointed to his present position in January 2003 and, from November 2001 to December 2002, his principal occupation was as Executive Vice President and Chief Financial Officer of HMZ Metals Inc. and, from August 1997 to October 2001, as an analyst for Credit Suisse First Boston. Mr. Doyle has been involved in the mining industry since 1980.

John Thomas, age 55, Vice President, Operations. Responsible for the technical management of the Company's operations. Dr. Thomas is a full-time employee of the Company and received a Ph.D. in chemical engineering from Manchester University. Dr. Thomas' principal occupation from July 2000 to April 2003 was as an independent mining consultant and, prior thereto, was responsible for the establishment and operation of Bolivar Goldfields Ltd.'s Tomi gold mine in El Callao from January 1998 to July 2000. Dr. Thomas has worked in the mining industry for 30 years in a number of countries.

Peter Volk, age 41, Corporate Secretary and Legal Counsel. Responsible for the legal and regulatory oversight and compliance for all operations of the Company. Mr. Volk is a full-time employee of the Company with LL.B. and B.A. degrees. Mr. Volk's principal occupation since October 1, 2001 has been as Corporate Secretary and Legal Counsel of the Company and prior thereto, from September 1996, as Corporate Secretary and Legal Counsel for Bolivar Goldfields Ltd. (now BluePoint Data Storage, Inc.), an unaffiliated company. Mr. Volk has been involved in the mineral exploration industry since 1996.

Except as follows, none of the directors or officers of the Company or a shareholder of the Company holding a sufficient number of Common Shares to affect materially control of the Company is or, within 10 years before the date of this prospectus, has been a director or officer of another reporting issuer that, while the person was acting in that capacity, was the subject of a cease trade or similar order, or an order that defined the other issuer access to any exemptions under Ontario securities law, for a period of more than 30 consecutive days or became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appoint to hold its assets. Serafino Iacono, Miguel de la Campa and Peter Volk are directors and/or officers of Chivor Emerald Corporation Limited, which was the subject of a cease trade order of the Ontario Securities Commission dated June 15, 2000 due to the failure to file financial statements within prescribed time periods. These statements were not filed due to Chivor Emerald Corporation Limited's lack of sufficient funds to pay for an audit of such financial statements.

EXECUTIVE COMPENSATION

Introduction

For purposes of this section, "executive officer" of the Company means an individual who at any time during the year was the chairman or a vice-chairman of the board of directors, where such person performed the functions of such office on a full-time basis, the president, any vice-president in charge of a principal business unit such as sales, finance or production, or any officer of the Company or of a subsidiary or other person who performed a policy-making function in respect of the Company.

The following table is a summary of the compensation paid to the chief executive officer and the executive officers of the Company for whom disclosure is required (the "Named Executive Officers") during the three most recently completed financial years for services rendered to the Company or a subsidiary of the Company:

Summary Compensation Table⁽¹⁾

Name and Principal Position	Year	Annual Compensation			Long Term Compensation			
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	All Other Compensation (\$)
					Securities Under Options/SARs Granted (#)	Restricted Shares or Restricted Share Units	LTIP (2) Payouts (\$)	
Serafino Iacono, Chairman, Chief Executive Officer and Director	2002	Nil	Nil	Nil	225,000	Nil	Nil	63,104 ⁽³⁾
	2001	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2000	81,005	Nil	Nil	Nil	Nil	Nil	Nil
Jose Francisco Arata, Executive Vice President, Exploration, and Director	2002	Nil	Nil	Nil	175,000	Nil	Nil	65,734 ⁽³⁾
	2001	77,250	Nil	6,209 ⁽⁴⁾	Nil	Nil	Nil	399,951 ⁽⁵⁾
	2000	134,955	Nil	4,560 ⁽⁴⁾	Nil	Nil	Nil	Nil
Miguel de la Campa, President, Chief Operating Officer and Director	2002	Nil	Nil	Nil	225,000	Nil	Nil	70,992 ⁽³⁾
	2001	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2000	81,005	Nil	Nil	Nil	Nil	Nil	19,300 ⁽⁷⁾
Robert E. Doyle, Chief Financial Officer ⁽⁶⁾	2002	-	-	-	-	-	-	-
	2001	-	-	-	-	-	-	-
	2000	-	-	-	-	-	-	-
Peter Volk, Corporate Secretary & Legal Counsel	2002	87,682	Nil	Nil	75,000	Nil	Nil	7,888 ⁽³⁾
	2001	15,789	Nil	Nil	Nil	Nil	Nil	Nil
	2000	15,533	Nil	Nil	Nil	Nil	Nil	Nil

- (1) All monetary figures are in Canadian dollars, except where otherwise indicated.
- (2) "LTIP" or "long term incentive plan" means any plan which provides compensation intended to serve as incentive for performance to occur over a period longer than one financial year, but does not include options granted under the Stock Option Plan.
- (3) Represents accrued but unpaid salary owed to such officer from September 1, 2002 to December 31, 2002.
- (4) Represents insurance premiums paid on behalf of the executive and an annuity paid by the Company in lieu of a pension.
- (5) Relates to the payment of previously deferred salary, half of which (US\$129,434) was paid in cash and the other half of which was satisfied by the issuance of 331,882 Common Shares.
- (6) Mr. Doyle joined the Company in January 2003 and consequently received no salary or other compensation in the fiscal years indicated, other than 80,000 options granted to him on December 11, 2002, when Mr. Doyle was acting as a consultant to the Company.
- (7) Relates to the payment of previously deferred salary (US\$12,805) which was satisfied by the issuance of 35,398 Common Shares.

Options Granted During the Most Recently Completed Fiscal Year

During the Company's most recently completed fiscal year, the following options were granted to the Named Executive Officers under the Stock Option Plan:

Name	Date of Grant	Securities Under Options Granted (#)	Exercise or Base Price (\$/ Security)	% of Total Options Granted to Employees in Fiscal Year	Market Value of Shares on the Date of Grant ⁽¹⁾ (\$/ Security)	Expiration Date
Serafino Iacono	March 13, 2002	75,000	0.60	7.2%	0.18	March 13, 2007
	September 17, 2002	150,000	0.35	14.5%	0.35	September 17, 2007
Miguel de la Campa	March 13, 2002	75,000	0.60	7.2%	0.18	March 13, 2007
	September 17, 2002	150,000	0.35	14.5%	0.35	September 17, 2007
Jose Francisco Arata	March 13, 2002	75,000	0.60	7.2%	0.18	March 13, 2007
	September 17, 2002	100,000	0.35	9.7%	0.35	September 17, 2007
Robert E. Doyle	December 11, 2002	80,000	0.60	7.7%	0.48	December 11, 2007
Peter Volk	March 13, 2002	25,000	0.60	2.4%	0.18	March 13, 2007
	September 17, 2002	50,000	0.35	4.8%	0.35	September 17, 2007

(1) Calculated as the closing price of the Common Shares on the TSXVE on the date of grant.

Aggregated Option Exercises During the Most Recently Completed Fiscal Year and Fiscal Year-End Option Values

No incentive stock options were exercised by the Named Executive Officers in the Company's most recently completed fiscal year. The following table sets out the fiscal year-end value of options held by the Named Executive Officers:

Name	Unexercised Options at Fiscal Year-End Exercisable/Unexercisable (#)	Value of Unexercised in-the-money Options at Fiscal Year-End Exercisable/Unexercisable ⁽¹⁾ (\$)
Serafino Iacono	62,500/162,500	7,500/34,500
Miguel de la Campa	62,500/162,500	7,500/34,500
Jose Francisco Arata	54,167/120,833	5,250/23,250
Robert E. Doyle	0/80,000	0/1,600
Peter Volk	20,833/54,167	2,500/11,500

(1) Based on the difference between the option exercise price and the closing price of the Common Shares on the TSXVE on December 31, 2002 of \$0.62.

Employment Agreements

The Company is a party to employment agreements (the “Employment Agreements”) with each of the Named Executive Officers.

The Employment Agreements provide that the Company may terminate the employment of the employee for any reason whatsoever by the payment of a lump sum equal to the greater of:

- (a) two times the employee’s then annual base salary, unless the employee is terminated for cause, in which case the Company is not required to make such payment; and
- (b) such amount, if any, which is payable to the employee in lieu of notice required to be given to the employee under Ontario employment standards legislation.

The Employment Agreements further provide that the employee is entitled to terminate his employment with the Company and to receive a payment from the Company in an amount equal to three times the employee’s then annual base salary if there is a change of control of the Company and there are subsequent specified material changes in the employee’s employment relationship with the Company within two years of the change of control.

Pursuant to the Employment Agreements, each of Messrs. Iacono, de la Campa, Arata, Doyle and Volk is paid a salary approved by the directors of the Company from time to time. Their current salaries are as follows: US\$150,000 for each of Serafino Iacono and Miguel de la Campa, US\$125,000 for each of Robert E. Doyle and Jose Francisco Arata and US\$110,000 for Peter Volk.

Stock Option Plan

The Company has a stock option plan available to all officers, directors, employees and consultants of the Company. See “Options and Warrants to Purchase Common Shares – Stock Options” for further details.

Other Benefits

In addition to the foregoing, all of the executive officers of the Company are entitled to medical and dental benefits and reimbursement for all reasonable business expenses. The Company commenced paying for these medical and dental benefits on behalf of its executive officers on April 1, 2003.

Directors’ Compensation

Other than receiving stock options from time to time under the Stock Option Plan, directors who are not officers of the Company each receive an annual fee of US\$15,000 for attending board and committee meetings (see “Options and Warrants to Purchase Common Shares – Stock Options”).

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated August 25, 2003 (the “Underwriting Agreement”) between the Company and Griffiths McBurney & Partners, BMO Nesbitt Burns Inc., Orion Securities Inc., Sprott Securities Inc., Canaccord Capital Corporation and McFarlane Gordon Inc. (collectively the “Underwriters”), on August 25, 2003 (the “Closing Date”) the Company issued and sold an aggregate of 39,505,926 Special Warrants at a price of \$1.35 per Special Warrant for an aggregate purchase price of \$53,333,000.10 upon the terms and conditions contained in the Underwriting Agreement pursuant to exemptions from applicable securities legislation. In accordance with the Underwriting Agreement, the Company paid the Underwriters an aggregate cash fee of \$3,199,980.01 for their services. This prospectus qualifies the distribution of the Units issuable upon the exercise of the Special Warrants.

The Special Warrants were issued under a special warrant indenture (the “Special Warrant Indenture”) dated the Closing Date between the Company and Equity Transfer Services Inc., as special warrant agent. Each Special Warrant is exercisable without additional payment for one Unit, subject to adjustment, at any time on or before 5:00 p.m. (Toronto time) (the “Expiry Time”) on the day (the “Expiry Date”) which is the earlier of (i) the third business day after a receipt for the

prospectus qualifying the distribution of the Units issuable upon exercise of the Special Warrants by the securities regulatory authorities (the “Securities Commissions”) in each of British Columbia, Alberta and Ontario (collectively the “Qualifying Jurisdictions”) and (ii) December 26, 2003. If a receipt for the prospectus has not been issued by the Securities Commissions by November 23, 2003 (being the Qualification Deadline), then each outstanding Special Warrant will thereafter be exercisable for 1.1 Units (in lieu of one Unit). Special Warrants which have not been previously exercised will be deemed exercised on behalf of, and without any required action on the part of, the holder immediately prior to the Expiry Time on the Expiry Date.

The Warrants will be issuable under a warrant indenture (the “Warrant Indenture”) dated the Closing Date between the Company and Equity Transfer Services Inc., as warrant agent.

The Special Warrants and the Common Shares and Warrants issuable upon the exercise of the Special Warrants have not been registered under the United States *Securities Act of 1933*, as amended (the “U.S. Securities Act”) or the securities laws of any state of the United States and, subject to certain exceptions, may not be offered or sold, directly or indirectly, in the United States unless registered under the U.S. Securities Act and the securities laws of all applicable states of the United States or unless an exemption from such registration requirements is available.

DETAILS OF THE OFFERING

Offering

This prospectus qualifies the distribution of 39,505,926 Units of the Company, issuable without payment of additional consideration upon the exercise of 39,505,926 outstanding Special Warrants. Each Unit consists of one Common Share and one-half of one Warrant exercisable to purchase one Common Share at a price of \$1.75 per share at any time until 5:00 p.m. (Toronto time) on August 25, 2008.

DESCRIPTION OF SECURITIES DISTRIBUTED

Description of Common Shares

Each Common Share entitles the holder to dividends if, as and when declared by the directors, to one vote at all meetings of holders of Common Shares and to participate ratably in any distribution of the assets of the Company upon liquidation, dissolution or winding up, subject to the prior rights of holders of shares ranking in priority to the Common Shares.

Description of Warrants

Each whole Warrant will entitle the holder thereof to purchase one Common Share at a price of \$1.75 per Common Share at any time until 5:00 p.m. (Toronto time) on August 25, 2008.

The Warrants will be separable from the corresponding Common Shares immediately upon issue.

The Warrants will be issued under an indenture (the “Warrant Indenture”) dated the Closing Date between the Company and Equity Transfer Services Inc., as warrant agent. The Warrant Indenture will contain provisions to the effect that in the event of any subdivision, consolidation, change, reclassification or alteration of the Common Shares or in the event of the consolidation, amalgamation or merger of the Company with another corporation, a proportionate adjustment or change will be made in the number and kind of securities issuable on the exercise of the Warrants.

The Warrant Indenture will also provide that the exercise price per Common Share is subject to adjustment in certain events including:

- (a) the subdivision or consolidation of the Common Shares or the issue of Common Shares to all or substantially all of the holders of Common Shares by way of a stock dividend, other than an issue of Common Shares to such holders as a “dividend paid in the ordinary course” (as defined in the Warrant Indenture);
- (b) the issue of rights, options or warrants to all or substantially all the holders of Common Shares entitling them within a period of no longer than 45 days after such date of issue to acquire (i) Common shares at less than 95% of the “current market price” (as defined in the Warrant Indenture) of the Common Shares or (ii) securities

convertible into Common Shares where the conversion price at the date of issue of such convertible securities is less than 95% of the “current market price” of the Common Shares; and

- (c) the distribution to all or substantially all of the holders of Common Shares or of shares of any other class or of rights, options, or warrants (other than those referred to above) or of evidences of indebtedness or of assets, excluding “dividends paid in the ordinary course” (as defined in the Warrant Indenture).

“Current market price” is defined in the Warrant Indenture to mean at any date the weighted average trading price per Common Share for the 20 trading days immediately preceding such date on the principal stock exchange on which the Common Shares are then listed.

The Company has also covenanted in the Warrant Indenture that, during the period in which the Warrants are exercisable, it will give public notice of certain stated events at least 14 days prior to the record date or the effective date, as the case may be, of such events.

To the extent that a holder of a Warrant would otherwise be entitled to purchase a fraction of a Common Share, such right may be exercised only in combination with other rights which, in the aggregate, entitle the holder to purchase a whole number of Common Shares. No adjustments as to dividends will be made upon any exercise of Warrants. Holders of Warrants do not have any voting or pre-emptive rights or any other rights as shareholders of the Company.

None of the Common Shares or Warrants comprising the Units or the Common Shares issuable upon exercise of the Warrants have been or will be registered under the 1933 Act. The Warrant Indenture provides that the Warrants may not be transferred except (i) to the Company or (ii) outside of the United States in accordance with Rule 904 of Regulation S under the 1933 Act and that the Warrants may not be exercised in the United States or by or on behalf of a U.S. person unless an exemption from the registration requirements of the 1933 Act and applicable states securities laws is available. Each warrant certificate will carry a legend to that effect.

Reference is made to the Warrant Indenture for the full extent of the attributes of the Warrants. A copy of the Warrant Indenture will be available for examination at the head office of the Company in Toronto, Ontario, during the period of distribution and for a period of 30 days thereafter.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Wildeboer Rand Thomson Apps & Dellelce, LLP, counsel to the Company, and Fraser Milner Casgrain LLP, counsel to the Underwriters the following is a summary of the principal Canadian federal income tax considerations generally applicable to persons who acquire Common Shares and Warrants upon the exercise or deemed exercise of Special Warrants. This summary is applicable only to holders of Special Warrants who, for the purposes of the *Income Tax Act* (Canada) (the “Tax Act”) and at all relevant times, are resident in Canada, hold the Special Warrants and will hold the Common Shares and Warrants as capital property, deal at arm’s length with the Company and are not affiliated with the Company. This summary does not apply to a holder that is a “financial institution” as defined in the Tax Act for the purposes of the mark-to-market rules or a “specified financial institution” for purposes of the Tax Act. Special Warrants, Common Shares and Warrants will generally be capital property to a holder unless such securities are held in the course of carrying on a business of trading or dealing in securities or have been acquired in a transaction or transactions considered to be an adventure in the nature of trade. Depending on a holder’s particular circumstances, Common Shares may be deemed to be capital property for purposes of the Tax Act where the election in subsection 39(4) of the Tax Act has been made by a Canadian resident holder eligible to make such an election.

This summary is based on the provisions of the Tax Act and the regulations thereunder (the “Tax Regulations”) in force as of the date of this prospectus, all proposals to amend the Tax Act and the Tax Regulations publicly announced by the Minister of Finance (Canada) prior to the date hereof (the “Proposed Amendments”) and counsel’s understanding of the current published administrative and assessing practices of the Canada Customs and Revenue Agency (the “CCRA”). No assurance can be given that the Proposed Amendments will be enacted in their current proposed form or at all; however, the Canadian federal income tax considerations generally applicable to holders with respect the Common Shares and Warrants will not be materially different if the Proposed Amendments are not enacted. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account any changes in the law or administrative practices whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be relied on as legal or tax advice to any particular holder. Consequently, holders are urged to seek independent tax advice in respect of the tax consequences to them of subscribing for the Common Shares and Warrants.

Exercise of Special Warrants

No gain or loss will be realized by a holder upon the exercise or deemed exercise of a Special Warrant.

The cost to a holder of the Unit acquired on exercise of a Special Warrant will be equal to the adjusted cost base to the holder of the Special Warrant at the time of exercise. Such cost must be allocated on a reasonable basis between the Common Share and the one-half of a Warrant comprising the Unit to determine the cost of each to the holder for purposes of the Tax Act. For its purposes, the Company intends to allocate \$1.20 of the purchase price of each Special Warrant to the Common Share and \$0.15 of the purchase price to the one-half of a Warrant. While the Company considers this allocation to be reasonable, it is not binding on the CCRA. The adjusted cost base to a holder of a Common Share acquired on exercise or deemed exercise of a Special Warrant will be determined by averaging the cost of such Common Share with the adjusted cost base to the holder of any other Common Shares held by the holder as capital property immediately before the Special Warrant was exercised.

Warrants

Exercise of Warrants

No gain or loss will be realized by a holder upon the exercise of a Warrant to acquire a Common Share. A holder's aggregate cost of the Common Share acquired on the exercise of a Warrant will be the aggregate of the adjusted cost base to the holder of the Warrant so exercised and the exercise price paid for such Common Share under the terms of the Warrant. The cost of any Common Share acquired on the exercise of a Warrant by a holder will be averaged with the adjusted cost base to the holder of any other Common Shares held by the holder as capital property immediately before that time to determine the adjusted cost base of the Common Share so acquired.

Disposition of Warrants

A holder who disposes of a Warrant will realize a capital gain (or capital loss) in the amount by which the proceeds of disposition, net of any costs of disposition, exceed (or are less than) the adjusted cost base to the holder of the Warrant disposed of. The tax treatment of capital gains and losses is discussed in greater detail below under “-Treatment of Capital Gains and Capital Losses”.

Expiry of Warrants

The expiry of any unexercised Warrant will constitute a disposition of that Warrant for nil proceeds of disposition, resulting in the holder realizing a capital loss equal to the adjusted cost base to the holder of the expired Warrant. The tax treatment of capital losses is discussed in greater detail below under “-Treatment of Capital Gains and Capital Losses”.

Disposition of Common Shares

A holder who disposes of a Common Share will realize a capital gain (or capital loss) in the amount by which the proceeds of disposition, net of any costs of disposition, exceed (or are less than) the adjusted cost base to the holder of the Common Share disposed of. The tax treatment of capital gains and losses is discussed in greater detail below under “-Treatment of Capital Gains and Capital Losses”.

Treatment of Capital Gains and Capital Losses

A holder will be required to include one-half of the amount of any capital gain (a “taxable capital gain”) in income, and will generally be allowed to deduct one-half of the amount of any capital loss (an “allowable capital loss”) against taxable capital gains realized by the holder in the year of disposition. Allowable capital losses not deducted in the taxation year in which they are realized may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances specified in the Tax Act. A capital gain realized by a holder who is an individual (including certain trusts)

may give rise to alternative minimum tax. A “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to an additional 6-2/3% refundable tax under the Tax Act on certain investment income, including taxable capital gains.

The amount of any capital loss realized on the disposition of a Common Share by a holder that is a corporation may be reduced by the amount of dividends received or deemed to have been received by it on the Common Share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where a holder that is a corporation is a member of a partnership or beneficiary of a trust that owns such shares, or that is itself a member of a partnership or a beneficiary of a trust that owns shares. Holders to whom these rules may be relevant should consult their own tax advisors.

Dividends

Dividends (including deemed dividends) received on Common Shares will be included in computing the holder’s income. In the case of an individual holder, such dividends will generally be subject to the gross-up and dividend tax credit rules normally applicable to dividends received from taxable Canadian corporations. In the case of a holder that is a corporation, such dividends will generally be deductible in computing the corporation’s taxable income. Shareholders that are “private corporations”, as defined in the Tax Act, or certain other corporations controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will be liable to pay a refundable tax at the rate of 33-1/3% under Part IV of the Tax Act on dividends received (or deemed to be received) on Common Shares to the extent such dividends are deductible in computing taxable income.

RISK FACTORS

The securities of the Company should be considered a highly speculative investment and investors should carefully consider all of the information disclosed in this prospectus prior to making an investment in the securities of the Company. In addition to the other information presented in this prospectus, the following risk factors should be given special consideration when evaluating an investment in any of the Company’s securities. Any of the following risks could have a material adverse effect upon the Company, its business and future prospects. In addition, other risks and uncertainties not presently known by management of the Company could impair the Company and its business in the future.

Exploration and Development

All of the resource properties in which the Company has interests are in the exploration stages only and are without a known body of ore. Exploration and development of natural resources involve a high degree of risk and few properties which are explored are ultimately developed into producing properties. Although the mineral resource figures set out herein have been carefully prepared and reviewed or verified by an independent mining expert, these amounts are estimates only and no assurance can be given that an identified mineral resource will ever qualify as a commercially mineable (or viable) ore body which can be legally and economically exploited. Estimates of mineral resources can also be affected by such factors as environmental permitting regulations and requirements, fluctuations in the price of gold, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. The long term profitability of the Company’s operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling, to develop processes to extract the resources and, in the case of new properties, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that resources will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

Operating Hazards and Risks

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of resources, any of which could result in work stoppages, damage to persons or property and possible environmental damage. Although the Company intends to obtain liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable against, or the Company might not elect to insure itself

against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Fluctuating Prices

The Company's revenues, if any, are expected to be in large part derived from the extraction and sale of precious metals such as gold. The price of these commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. The effect of these factors on the price of precious metals, and therefore the economic viability of any of the Company's exploration projects, cannot accurately be predicted.

Environmental Factors

All phases of the Company's operations are subject to environmental regulation in Venezuela. Environmental legislation is evolving in a manner which 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 is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. As the Company develops its properties in Venezuela, it will be required to obtain and comply with environmental permits under Venezuelan law. Failure to obtain or, once obtained, comply with the provisions of such permits could result in regulatory action being taken against the Company by Venezuelan authorities and the Company's inability to continue development or exploitation of the relevant property.

Title Matters

Although the Company has received a title opinion for the Properties, there is no guarantee that title to the Properties will not be challenged or impugned. There are outstanding surface taxes on the Properties, which taxes are calculated annually and paid quarterly upon receipt of notification from the MEM. Lack of payment of surface taxes for a property for more than a year is grounds for termination at the discretion of the MEM. Venezuelan counsel have advised that the non-payment of surface taxes is due to the MEM not having notified PMG of the amount of the surface taxes owing and as such, there is no voluntary breach or non-compliance by PMG regarding surface taxes. The exploration term of the Choco Concessions was stated to expire on June 28, 2003; however, the Company is of the view that the 1999 Mining Law of Venezuela applies to the Choco Concessions and, accordingly, the exploration term expires on June 28, 2004 and not on June 28, 2003. In April 2003 the Company asked the MEM for clarification on the duration of its exploration term and, at the same time, on April 24, 2003 presented for approval to CVG a regulatory (not bankable) feasibility study for the development of selected areas of the Choco Concessions. The Company is waiting for approval of the feasibility study from CVG, upon which, and in coordination with CVG, it will file such feasibility study with the MEM and apply for exploitation certificates for the elected mining areas of the Choco Concessions. The Company believes that the obligations under these two concessions have been fulfilled and, accordingly, that it will be issued exploitation certificates when applied for. However, there can be no assurance that the MEM will determine that such obligations have been fulfilled. If the MEM determines that such obligations have not been fulfilled, there can be no assurance that the MEM will issue exploitation certificates for the Choco Concessions when applied for or that such concessions will not be terminated.

Political and Economic Instability

The Company's exploration and development activities occur in Venezuela and, as such, the Company may be affected by political or economic instability in Venezuela. The risks include, but are not limited to, civil unrest, terrorism, military repression, extreme fluctuations in currency exchange rates and high rates of inflation. The security situation in Venezuela is highly volatile due to ongoing political conflict between the Venezuelan government and opposition groups. Demonstrations, counter-demonstrations, and street confrontations have led to acts of violence and disorder, resulting in deaths and injuries. While the situation is mainly within the greater Caracas area, demonstrations are also reported in other major cities. Opposition groups began an indefinite nationwide general strike on December 2, 2002. The opposition groups agreed to partially lift the strike from February 3, 2003. Nevertheless, one-third of the workers of the state-owned oil companies that joined the strike have been laid off and resumption of the normal output of oil and related products in the short term is

uncertain. Violent crime is prevalent throughout the country. Kidnapping, smuggling and drug trafficking occur frequently in remote areas, including Bolivar state. Changes in resource development or investment policies or shifts in political attitude in these countries may adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, maintenance of claims, environmental legislation, land use, small miners' activities, land claims of local people, water use and mine safety. The effect of these factors cannot be accurately predicted. In the past, Venezuela has imposed exchange controls that make it difficult for foreign mining companies to repatriate profits. On January 22, 2003, the foreign currency market in Venezuela was suspended until February 5, 2003. On February 6, 2003, the Executive and the Central Bank enacted the Exchange Control Regulations as a temporary measure to protect international reserves. The exchange rate has been fixed at 1,596 Bolivars to the US dollar for the sale of US dollars and at 1,600 Bolivars to the US dollar for the purchase of US dollars, and the rate is to fluctuate, changing periodically whenever and however the Executive and Central Bank see fit. All foreign currency brought into Venezuela (as foreign investment) by an investor must be sold to the Central Bank at the fixed exchange rate at the time of the transaction. All foreign currency derived from the export of products from Venezuela, including gold, must be sold to the Central Bank at the fixed exchange rate at the time of the transaction. Foreign investors have the right to apply to the Central Bank for foreign currency at the fixed exchange rate for the purposes of repatriation of capital, dividends and interest.

The provisions of the Investment Protection Treaty with Canada which was ratified by Venezuela on January 20, 1998 prevail over the Exchange Control Regulations and should provide certain protections to Canadian based investors (like the Company) in Venezuela. See "Narrative Description of Business".

Retention of Key Personnel

The Company's business is dependent on retaining the services of a small number of key personnel of the appropriate calibre as the business develops. The success of the Company is, and will continue to be to a significant extent, dependent on the expertise and experience of the directors and senior management and the loss of one or more could have a materially adverse effect on the Company.

These business risks should be considered in the context of the Company's business which is described under "Narrative Description of the Business".

LEGAL PROCEEDINGS

There are no legal proceedings material to the Company to which the Company or any subsidiary thereof is a party or of which any of their respective property is the subject matter, and no such proceedings are known by the Company to be contemplated.

LEGAL MATTERS

Certain legal matters relating to the offering have been passed upon on behalf of the Company by Wildeboer Rand Thomson Apps & Dellelce, LLP and on behalf of the Underwriters by Fraser Milner Casgrain LLP.

MATERIAL CONTRACTS

The following are the material contracts of the Company (other than contracts entered into in the ordinary course of business) entered into during the past two years by the Company or any subsidiary of the Company:

- Agreements entered into in April and May 2002 between the Company and Toscana providing for the acquisition and relinquishment of an interest in ERE (see "General Development of the Business – Three Year History")
- Agreement dated October 1, 2002, as amended April 1, 2003 between Carisma Corporation A.V.V. and Endeavour Financial Corporation Inc. (see "Other Material Facts")
- Share sale agreement dated as of November 15, 2002 between the Company and AC Oil (see "General Development of the Business – Three Year History")

- Sponsorship agreement dated as of December 5, 2002 between the Company and Dundee Securities Corporation
- Share purchase agreement dated February 4, 2003 among Carisma, the Company and Cemex (see “General Development of the Business – Significant Acquisition”)
- Share purchase agreement dated as of February 5, 2003 among the Company, Carisma, Newfield and Enrique Valero (see “General Development of the Business – Significant Acquisition”)
- Value security agreement dated February 28, 2003 among the Company, certain security holders and Equity Transfer Services Inc. (see “Escrowed Securities”)
- Equipment sale agreement dated as of March 15, 2003 between the Company and Hecla (see “General Development of the Business – Three Year History”)
- Agency agreement dated as of March 17, 2003 among the Company and Dundee Securities Corporation, Griffiths McBurney & Partners and Sprott Securities Inc.
- Special warrant indenture dated as of March 17, 2003 between the Company and Equity Transfer Services Inc.
- Warrant indenture dated as of March 17, 2003 between the Company and Equity Transfer Services Inc.
- Supplemental special warrant indenture dated as of April 23, 2003 between the Company and Equity Transfer Services Inc.
- Supplemental warrant indenture dated as of April 23, 2003 between the Company and Equity Transfer Services Inc.
- Addendum to the Carisma-Cemex Agreement dated as of May 27, 2003 (see “General Development of the Business – Significant Acquisition”)
- The Underwriting Agreement (see “Plan of Distribution”)
- The Special Warrant Indenture (see “Details of the Offering”)
- The Warrant Indenture (see “Details of the Offering”)

The material contracts described above may be inspected at the head office of the Company at Suite 1502, 110 Yonge Street, Toronto, Ontario M5C 1T4 during normal business hours during the period of the distribution of the securities being distributed hereunder and for a period of thirty days thereafter.

OTHER MATERIAL FACTS

Financial Advisory Services Agreement

Pursuant to a letter agreement dated October 1, 2002 and amended April 1, 2003, Carisma has retained Endeavour Financial Corporation Inc. (“Endeavour”) to provide it with general corporate financial advisory services. Endeavour’s primary mandate will be to arrange debt financing for the development of the Choco Concessions and the construction of the mine, milling and infrastructure facilities. Endeavour’s remuneration for the above services is as follows:

1. Work Fee: a monthly work fee in the amount of US\$10,000, invoiced in advance, payable by Carisma to Endeavour, in cash.
2. Milestone Fee: a milestone fee of US\$100,000 payable to Endeavour by Carisma in cash upon Carisma’s execution of a commitment letter, letter of intent, or other notice of formal commitment from a prospective lender, financier or other party to conclude a financing, business combination transaction, acquisition or divestiture of assets or a company or certain other transactions involving Carisma (collectively a “Transaction”).
3. Success Fee: a success fee payable by Carisma to Endeavour, in cash, at the time of closing a Transaction, calculated as two and one quarter per cent (2.25%) of the principal amount of any debt provided or committed to be

provided to Carisma and/or its subsidiaries/affiliates for the development of its assets, or of the value of the Transaction, as the case may be, payable at the time of closing a Transaction.

The Company has assumed Carisma's obligations under the Endeavour Agreement.

AUDITOR

Prior to June 16, 2003, the auditor of the Company was James L. Bray, Chartered Accountant, Suite 504, 4711 Yonge Street, Toronto, Ontario, M2N 6K8. Subsequent to June 16, 2003 the auditor of the Company is KPMG LLP, Suite 3300, 199 Bay Street, Toronto, Ontario, M5L 1B2.

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent of the Common Shares is Equity Transfer Services Inc., Suite 420, Adelaide Street West, Toronto, Ontario M5H 4C3.

INTEREST OF EXPERTS

Except as set out hereunder, none of Wildeboer Rand Thomson Apps & Dellelce, LLP, Fraser Milner Casgrain LLP, or any director, officer, employee or partner thereof, has received or will receive a direct or indirect interest in the property of the Company or of any associate or affiliate of the Company. As at the date hereof, the aforementioned persons, beneficially own, directly or indirectly, less than 1% of the securities of the Company. In addition, except for Mr. Dellelce, a partner of Wildeboer Rand Thomson Apps & Dellelce, LLP who is a director of the Company, none of the aforementioned persons or companies, nor any director, officer, partner or employee of any of the aforementioned persons or companies is or is expected to be elected, appointed or employed as a director, officer or employee of the Company or of any associates or affiliates of the Company.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

CONTRACTUAL RIGHT OF ACTION FOR RESCISSION

In the event that a holder of Special Warrants who acquires Units upon the exercise of Special Warrants as provided for in this prospectus, is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this prospectus or any amendment thereto containing a misrepresentation, such holder will be entitled to rescission not only of the holder's exercise of its Special Warrants but also of the private placement transaction pursuant to which the Special Warrants were initially acquired, and will be entitled in connection with such rescission to a full refund of all consideration paid to the Company by the holder on the acquisition of the Special Warrants. In the event the holder is a permitted assignee of the interest of the original Special Warrant subscriber, such permitted assignee will be entitled to exercise the rights of rescission and refund granted to the original Special Warrant subscriber as if such permitted assignee was such original subscriber. The foregoing is in addition to any other right or remedy available to a holder of Special Warrants under securities legislation or otherwise at law.

Bolivar Gold Corp.
(Formerly TecnoPetrol Inc.)
(A Development Stage Enterprise)
Consolidated Financial Statements
(expressed in U.S. dollars) (unaudited)

March 31, 2003

Bolivar Gold Corp.
(Formerly TecnoPetrol Inc.)
(A Development Stage Enterprise)
Consolidated Balance Sheets
(expressed in United States dollars) (unaudited)

	As at	
	March 31, 2003	December 31, 2002
Assets		
Current assets		
Cash and short term investments	\$ 2,045,686	\$ 508,961
Cash and short term investments in escrow	7,366,799	-
Accounts receivable	181,657	22,306
Other current assets	19,225	25,930
	<u>9,613,367</u>	<u>557,197</u>
Mineral properties (Note 2)	4,246,873	-
Deferred acquisition costs	279,250	158,378
Investment in European Real Estate	240,233	237,305
Capital assets - net of accumulated depreciation	65,440	6,898
	<u>\$ 14,445,163</u>	<u>\$ 959,778</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 391,274	\$ 393,352
Due to affiliated companies	\$ 21,610	-
Other current liabilities (Note 2)	2,950,000	-
	<u>3,362,884</u>	<u>393,352</u>
Employee severance indemnities	<u>8,207</u>	<u>-</u>
	3,371,091	393,352
Minority interest (Note 2)	36,446	-
Shareholders' Equity		
Share capital (Note 4)	13,231,788	12,179,095
Special warrants (Note 4)	9,731,938	-
Deficit	<u>(11,926,100)</u>	<u>(11,612,669)</u>
	<u>11,037,626</u>	<u>566,426</u>
	<u>\$ 14,445,163</u>	<u>\$ 959,778</u>

Bolivar Gold Corp.**(Formerly TecnoPetrol Inc.)**

(A Development Stage Enterprise)

Consolidated Statements of Operations and Deficit

(expressed in United States dollars) (unaudited)

	Three Months March 31 2003	Three Months March 31 2002
Revenue		
Interest	\$ 2,929	\$ -
Expenses		
General and administrative	35,653	208
Professional fees	72,602	5,750
Rent	15,351	1,122
Salaries and benefits	175,333	13,257
Shareholder information, transfer agent and filing fees	29,042	2,429
Travel	83,682	5,926
Depreciation, depletion and amortization	5,230	-
	416,893	28,692
Net interest expense	-	-
Foreign exchange gain	(100,533)	(3,304)
Loss before minority interest	(313,431)	(25,388)
Minority interest	-	-
Loss for period	(313,431)	(25,388)
Deficit, beginning of period	(11,612,669)	(11,425,295)
Deficit, end of period	\$ (11,926,100)	\$ (11,450,683)
Loss per share	\$ -	\$ -
Weighted average number of shares	15,962,530	5,534,009

Bolivar Gold Corp.
(Formerly TecnoPetrol Inc.)
(A Development Stage Enterprise)
Consolidated Statements of Cash Flows
(expressed in United States dollars) (unaudited)

	Three Months March 31 2003	Three Months March 31 2002
Operating activities		
Net loss for period	\$ (313,431)	\$ (25,388)
Items not affecting cash		
- Depreciation, depletion and amortization	5,230	-
- Minority interest	-	-
- Interest income	(2,929)	-
- Foreign exchange gain	(100,533)	-
	<u>(411,663)</u>	<u>(25,388)</u>
Changes in non-cash working capital		
Accounts receivable and other current assets	24,380	(11,950)
Accounts payable and accrued liabilities	(63,195)	(49,955)
Cash used in operating activities	<u>(450,478)</u>	<u>(87,293)</u>
Financing activities		
Special warrants issued for cash (net of cash and cash equivalents in escrow)	2,425,866	-
Issuance of share capital for cash	110,364	63,000
Increase in other liabilities	-	-
Cash provided by financing activities	<u>2,536,230</u>	<u>63,000</u>
Investing activities		
Acquisition of Carisma-net of acquired cash	(298,703)	-
Mineral property expenditures	(65,680)	-
Deferred acquisition costs	(120,872)	-
Acquisition of capital assets	(63,772)	-
Cash used in investing activities	<u>(549,027)</u>	<u>-</u>
Net (decrease) increase in cash	1,536,725	(24,293)
Cash, beginning of period	<u>508,961</u>	<u>544,823</u>
Cash, end of period	<u>\$ 2,045,686</u>	<u>\$ 520,530</u>

Bolivar Gold Corp.
(Formerly TecnoPetrol Inc.)
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(all figures in U. S. dollars unless otherwise stated)
March 31, 2003 and 2002

1. ORGANIZATION AND NATURE OF OPERATIONS

The Company is incorporated under the Business Corporations Act (Yukon). The Company is currently engaged in the exploration and development of mineral properties; as such, the Company is considered to be in the development stage. On January 9, 2003, the Company's shareholders approved the change of the Company's name to "Bolivar Gold Corp."

2. ACQUISITION OF CARISMA CORPORATION A.V.V.

On February 28, 2003, the Company completed its acquisition of Carisma Corporation A.V.V. ("Carisma") in accordance with the terms of its share purchase agreement with the shareholder of Carisma, dated as of February 5, 2003, and issued 5,000,000 common shares to Carisma's shareholder. Carisma's sole asset was all of the issued and outstanding shares of Promotora Minera de Venezuela, S.A. ("Promiven"), which in turn has a 70% interest in Promotora Minera de Guayana, S.A. ("PMG"), a joint venture between Promiven and Ferrominera de Orinoco, C.A., a wholly-owned subsidiary of Corporacion Venezolana de Guayana, a Venezuelan government-owned corporation responsible for the mineral development of the Guayana region of Venezuela. PMG is the title-holder to the Choco 4 and 10 and Bochinche Zero, 1 and 2 gold exploration properties in Venezuela (the "Properties").

Consideration for the acquisition consisted of the issuance of 5,000,000 common shares in the Company's capital to the shareholder of Carisma, as well as the assumption of Carisma's purchase obligations to the vendor, Cemex Venezuela S.A.C.A. ("Cemex"), with regard to the Properties. These obligations consist of a payment of the down payment by Carisma of \$300,000, which was advanced by the Company, \$1.0 million on each of the first and second anniversaries of closing, \$1.2 million on the third anniversary of closing, and \$0.75 million on each of the eighth and ninth anniversaries of the Properties being placed into production or a single instalment of \$1.5 million (or the balance of \$1.5 million not then paid) within 90 days after reaching a total production of 700,000 ounces of gold from any of the Properties, whichever occurs first. The Company, on behalf of Carisma, is required to provide a guarantee of payment by way of three irrevocable letters of credit in favour of Cemex, in the total amount of \$3.2 million, to be delivered no later than June 4, 2003. A royalty of \$10 or greater per ounce of gold (depending on prevailing gold prices) is also payable on all production from the Properties that exceeds an aggregate of 700,000 ounces.

The transaction has been accounted for using the purchase method of accounting and is summarized as follows:

Bolivar Gold Corp.
(Formerly TecnoPetrol Inc.)
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Notes to Consolidated Financial Statements
(all figures in U. S. dollars unless otherwise stated)
March 31, 2003 and 2002

Net assets acquired at fair values:

Assets:

Accounts receivable and other assets(1)	\$ 177,026
Mineral properties	<u>4,181,193</u>
	\$ 4,358,219

Liabilities:

Accounts payable	\$ (122,534)
Other current liabilities(3)	(2,950,000)
Other liabilities	(8,207)
Minority interest	<u>(36,446)</u>
	<u>\$(3,117,187)</u>

Net assets acquired(2) \$ 1,241,032

(1) Excluding cash of \$1,237

(2) Net cash of \$298,703 and common shares of the company with a deemed value of \$942,329.

(3) Included in other current liabilities is the payment to be made on or before June 4, 2003 for the acquisition of Promiven. See Note 7(f).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim unaudited consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada using the same accounting policies as those described in Note 3 to the Company's consolidated audited financial statements for the year ended December 31, 2002. These interim unaudited consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements included in the Company's annual report for the year 2002.

4. SHARE CAPITAL

On July 30, 2002, the shareholders of the Company approved the consolidation of the Company's common shares on a one-for-six basis and this consolidation was effected August 1, 2002. As a result of the consolidation, the Company's issued and outstanding shares were reduced to 5,752,528. The Company's 2.0 million outstanding warrants pre-consolidation were reduced to 333,333 and the exercise price increased from \$0.063 to \$0.38 and its 2,280,000 incentive share options outstanding pre-consolidation reduced to 380,000 and the corresponding average exercise price increased to \$0.54.

The share, warrant and option numbers in the tables and narrative have been restated to reflect the consolidation in order to aid comparison.

Bolivar Gold Corp.
(Formerly TecnoPetrol Inc.)
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(all figures in U. S. dollars unless otherwise stated)
March 31, 2003 and 2002

Authorised

An unlimited number of common shares without par or nominal value.

	March 31, 2003		March 31, 2002	
	Number of Shares	Amount	Number of Shares	Amount
ISSUED AND SUBSCRIBED				
Balance beginning of period	12,535,271	\$12,179,095	5,419,195	\$11,311,980
Warrant exercises	<u>53,333</u>	<u>21,622</u>	<u>-</u>	<u>-</u>
Private placements	<u>400,000</u>	<u>88,742</u>	<u>333,333</u>	<u>100,000</u>
Issued on Carisma acquisition	<u>5,000,000</u>	<u>942,329</u>	<u>-</u>	<u>-</u>
Less share issue costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance end of period	<u>17,988,604</u>	<u>13,231,788</u>	<u>5,752,528</u>	<u>\$11,411,980</u>

On February 28, 2002, the Company completed a private placement of 333,333 units at C\$0.30 per unit; each unit consisting of one share and one share purchase warrant, exercisable for one year, at C\$0.60.

On January 13, 2003, the Company closed a private placement of 400,000 units at C\$0.35 per unit for gross proceeds of \$88,742; each unit consisting of one share and one-half of one share purchase warrant, each whole warrant exercisable for 18 months at C\$0.50.

On February 28, 2003 holders of 53,333 share purchase warrants exercisable at C\$0.60 exercised their warrants and received 53,333 common shares of the Company for gross proceeds to the Company of \$21,622. An additional 280,000 C\$0.60 share purchase warrants expired on that date.

Basic loss per share is calculated based upon the weighted average number of shares outstanding during the year. Fully diluted loss per share has not been presented since it is anti-dilutive.

Special Warrants

On March 17, 2003, the Company closed the private placement of 20,663,103 special warrants at C\$0.75 for gross proceeds of \$10,491,437. Each special warrant is exchangeable, without the payment of any additional consideration, for a unit consisting of one common share of the Company and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to purchase one additional share of the Company at a price of C\$1.10 for a period of five years.

The agents for the special warrant financing received a commission of 6% of the gross proceeds, equal to C\$0.9 million, as well as a compensation option exchangeable into 1,239,786 units at

Bolivar Gold Corp.
(Formerly TecnoPetrol Inc.)
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
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March 31, 2003 and 2002

C\$0.75 for a period expiring September 17, 2004. These units have the same characteristics as those issued to subscribers to the private placement.

The Company also closed a separate financing on the same terms as the special warrant financing for an additional 40,000 special warrants for proceeds of C\$30,000.

The Company's costs related to the issuance of the aggregate of 20,703,103 special warrants totalled \$759,499, for net proceeds of \$9,731,938.

75% of the proceeds of the net proceeds of the special warrant financing have been placed into escrow, with 20% released upon the Company filing its preliminary prospectus qualifying the issue of the units and the remaining 55% to be obtained upon the Company obtaining a receipt for its final prospectus. If a receipt for a final prospectus is not issued by June 17, 2003, each special warrant will be exchangeable for 1.1 units for no additional consideration.

Incentive share option plan

The Company has an incentive share option plan. On January 9, 2003, the shareholders of the Company approved the increase in the number of shares reserved for issuance under the Company's incentive stock option plan to 2,289,866 common shares (equal to 20% of its issued and outstanding capital as at December 11, 2002). Under the plan, the exercise price of each option equals the market price on the last trading day of the Company's common shares and an option's maximum term is 5 years. Options may be granted by the Board of Directors at any time, and they vest quarterly over 18 months in equal tranches.

The following table, expressed in Canadian dollars, presents the continuity of the incentive share options:

	March 31, 2003		March 31, 2002	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	1,035,000	C\$ 0.45	113,333	C\$ 0.96
Granted	1,150,000	0.60	266,667	0.60
Expired	(60,000)	0.60	-	-
Outstanding, end of period	2,125,000	C\$ 0.52	400,000	C\$ 0.71

The weighted average remaining contractual life is 4.6 years (2002 – 3.5 years).

On March 13, 2002, the Company granted 266,667 stock options to directors and officers of the Company. The options are exercisable at a price of C\$0.60, are subject to a four month hold period and are exercisable until March 13, 2007.

On March 19, 2003, the Company granted 1,150,000 stock options to directors and officers of the Company. The options are exercisable at a price of C\$0.60, are subject to an eighteen-month vesting schedule and are exercisable until March 19, 2008.

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The Company applies the intrinsic value method of accounting for stock-based compensation awards granted to employees. Accordingly, no compensation expense has been recognised for options granted under its incentive share option plan.

Had the incentive share option plan for options granted since January 1, 2003 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 pro forma loss and loss per share would be as follows:

	March 31, 2003		March 31, 2002	
	Amount	Per share	Amount	Per share
Loss for the period	\$ (313,431)	-	\$ (25,388)	-
Stock-based compensation expense	(38,100)	-	(5,266)	-
Pro forma net loss for the period	<u>\$ (351,531)</u>	<u>-</u>	<u>\$ (30,654)</u>	<u>-</u>

For purposes of the above, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants:

- dividend yield – 0%;
- expected volatility – 42.25%;
- risk-free rate of return – 4%; and
- expected life of options – 30 months.

Warrants

The following table, expressed in Canadian dollars, presents the continuity of warrants:

	March 31, 2003			March 31, 2002		
	Number of Shares	Exercise Price	Date of Expiry	Number of shares	Exercise price	Date of expiry
Balance, beginning of period	3,724,578	C\$ 0.31	2003 - 2005	-	-	-
Granted	200,000	0.50	2005	333,333	C\$ 0.60	2003
Exercised	(53,333)	0.60	2003	-	-	-
Expired	(280,000)	0.60	2003	-	-	-
Balance, end of period	<u>3,591,245</u>	<u>C\$ 0.29</u>	<u>2005</u>	<u>333,333</u>	<u>C\$ 0.60</u>	<u>2003</u>

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5. COMMITMENTS AND CONTINGENCIES

In October, 2002, Carisma entered into an agreement with Endeavour Capital Corporation Limited for the provision of financial advisory services related to obtaining bank financing for the development of the Promiven properties. The agreement calls for a work fee of \$10,000 per month, a milestone fee of \$100,000 upon execution of a term sheet offering financing to Carisma, and a success fee of 2.25% upon advance of the debt. The obligations under this agreement have been assumed by the Company. See Note 7(a).

6. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities as at March 31, 2003 is \$155,000 due to directors and officers of the Company for unpaid salaries. These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by related parties.

7. SUBSEQUENT EVENTS

- (a) On April 1, 2003, the Company amended Carisma's agreement with Endeavour by including in their mandate project acquisitions or divestitures and corporate mergers and acquisitions, or similar business combinations involving Carisma or the Company, as well as any possible equity offering. The fees payable under their original mandate were also amended to include a 2% success fee payable upon an acquisition, divestiture or business combination, and 1% for an equity offering. All other fees remained unamended.
- (b) On April 3, 2003, the Company announced that it had reached an agreement to purchase the processing facilities of Hecla Mining Company that are currently located at Hecla's Grouse Creek site in Idaho, U.S.A, which the Company intends to relocate to its Choco 10 property. The grinding, gravity concentration, carbon adsorption and Merrill-Crowe precipitation facilities were designed to process 5,400 tonnes of gold ore per day. The acquisition price for the equipment was \$1.5 million, payable in four installments 75 days apart, commencing May 15, 2003, of \$375,000.
- (c) On April 22, 2003, the Company closed the private placement of 1,535,000 special warrants at C\$0.75 for gross proceeds of C\$1.2 million. Each special warrant bears the same characteristics and is subject to the same escrow and penalty conditions as set forth in Note 4 above. The agents for this special warrant financing received a commission of 6% of the gross proceeds, equal to C\$69,075, as well as a compensation option exchangeable into 92,100 units at C\$0.75 for a period expiring September 17, 2004.
- (d) On April 29, 2003, the Company filed its preliminary prospectus seeking to qualify the units underlying the 22,238,103 special warrants it issued in March and April 2003. Upon obtaining a receipt for the filing of the preliminary prospectus, 20% of the escrowed funds were released to the Company. See Note 4.
- (e) On May 27, 2003, the Company closed the private placement of 3,401,897 special warrants at C\$0.75 for gross proceeds of C\$2.6 million. Each special warrant bears the same characteristics and is subject to the same escrow and penalty conditions as set forth in Note 4 above. The agents for this special warrant financing received a commission of 6% of the gross proceeds, equal to C\$153,085, as well as a compensation option exchangeable into 204,114 units at C\$0.75 for a period expiring September 17, 2004.

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- (f) On May 27, 2003, the Company, Cemex and Carisma signed an addendum to the agreement dated as of February 4, 2003 under which Carisma acquired Promiven; under the addendum, the Company agreed to pay Cemex a lump sum of US\$2,950,000 in final satisfaction of Carisma's obligation to pay an aggregate of \$3.2 million to Cemex between February 4, 2004 and February 4, 2006. As a result, the Company has no obligation to obtain the \$3.2 million in irrevocable letters of credit in favour of Cemex. See Note 2.
- (g) On May 30, 2003, the Company obtained a receipt for its final prospectus qualifying the units underlying the 25,640,000 special warrants it issued in March, April and May 2003. Upon obtaining the receipt for the prospectus, the remainder of the escrowed funds were released to the Company.
- (h) On June 23, 2003, Vicenza Corporation AVV, a subsidiary of the Company, signed an agreement with Sawtooth Engine & Aircraft ("Sawtooth") whereby Sawtooth agreed to dismantle and prepare for shipping Hecla's Grouse Creek Mill, for consideration of \$1,296,482.
- (i) On July 8, 2003, the Company and Gold Reserve Inc. ("Gold Reserve") signed a letter of intent whereby the parties agreed to jointly explore and, if warranted, develop Gold Reserve's Choco 5 property in the El Callao district of Venezuela. The Company agreed to fund the initial exploration program, up to a maximum of \$300,000, and earn a 50% interest in the property and thereafter each party will contribute equally towards the exploration and development costs. In addition, the Company and Gold Reserve have agreed to jointly pursue other exploration opportunities within a defined area of interest in the El Callao district of Venezuela, excluding the Company's Choco 4 and 10 properties. Completion of the transaction is subject to execution of a definitive agreement and regulatory approval.
- (j) On July 24, 2003, the Company signed a letter of intent with a wholly-owned subsidiary of Gold Fields Ltd. ("Gold Fields") whereby the two companies agreed to jointly acquire, explore and, if warranted, develop gold properties in a defined area of interest in the El Callao area of Venezuela, excluding the Company's Choco 4 and 10 concessions. For all properties acquired under this letter of intent, the Company and Gold Fields shall equally fund all property acquisition costs. Gold Fields will be responsible for funding all costs of exploration through to completion of a bankable feasibility study, with the Company's 50% share of such costs treated as a loan by Gold Fields and recovered preferentially from the Company's share of future cash flows. Gold Fields has the right to increase its interest from 50% to 65% in any project by waiving repayment by the Company of its share of exploration and development costs. Completion of the transaction is subject to execution of a definitive agreement and regulatory approval.
- (k) On August 25, 2003, the Company completed a private placement of 29,629,630 special warrants at C\$1.35, which was, at the underwriters' option, increased to 39,505,926 special warrants. Each special warrant is convertible into a unit consisting of one share and one-half of a warrant, with each whole warrant being exercisable for a period of five years at an exercise price of C\$1.75. The underwriters for the private placement were paid a commission of 6% of the gross proceeds.

Bolivar Gold Corp.
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(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Financial Statements

(expressed in U.S. dollars)

DECEMBER 31, 2002

AUDITOR'S REPORT

**To the Board of Directors of Bolivar Gold Corp.
(formerly TecnoPetrol Inc.)
(A Development Stage Enterprise)**

I have audited the consolidated balance sheets of Bolivar Gold Corp. (formerly TecnoPetrol Inc.) as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
February 28, 2003
(except for notes 10(g) through (n)
which are as of May 27, 2003 and notes
10(o) through (s) which are as of
August *, 2003)

Chartered Accountant

Bolivar Gold Corp.
(Formerly TecnoPetrol Inc.)
(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Balance Sheets
(expressed in United States dollars)

	December 31 2002	December 31 2001
Assets		
Current assets		
Cash	\$ 508,961	\$ 544,823
Other receivables	22,306	26,450
Other current assets	25,930	-
	<u>557,197</u>	<u>571,273</u>
Investment in European Real Estate - (note 5)	237,305	-
Deferred acquisition costs - (notes 3 and 10(e))	158,378	-
Capital assets - net of accumulated depreciation	6,898	-
	<u>\$ 959,778</u>	<u>\$ 571,273</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 393,352	\$ 684,588
	<u>393,352</u>	<u>684,588</u>
Shareholders' Equity		
Share capital - (note 6)	12,179,095	11,311,980
Deficit	(11,612,669)	(11,425,295)
	<u>566,426</u>	<u>(113,315)</u>
	<u>\$ 959,778</u>	<u>\$ 571,273</u>

Organization and nature of operations (Note 1)
Going concern uncertainty (Note 2)
Commitments and contingencies (Note 8)

See accompanying notes

Approved by the Board of Directors:

/s/Serafino Iacono
Director

/s/Miguel de la Campa
Director

Bolivar Gold Corp.
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Consolidated Statements of Operations and Deficit
(expresses in United States dollars)

	December 31, 2002	December 31, 2001
Revenue		
Oil sales	\$ -	\$ 422,735
Pipeline	-	246,751
Interest income	3,095	2,496
Other	-	15,646
	<u>3,095</u>	<u>687,628</u>
Expenses		
Operating costs	-	563,728
General and administrative	390,539	194,094
Depreciation, depletion and amortization	560	55,323
	<u>391,099</u>	<u>813,145</u>
Operating loss	(388,004)	(125,517)
Net interest expense	-	71,366
Business development expense	214,431	43,247
Gain on settlement of labor liabilities - (note 8)	(265,646)	-
Gain on sale of TecnoPetrol AVV - (note 4)	(139,702)	-
Loss on sale of oil & gas properties - (note 4)	-	883,052
Foreign exchange gain	(9,713)	(11,019)
	<u>(200,630)</u>	<u>986,646</u>
Loss before minority interest and income taxes	(187,374)	(1,112,163)
Minority interest	-	-
Loss before income taxes	(187,374)	(1,112,163)
Income taxes	-	-
Loss for year	(187,374)	(1,112,163)
Deficit, beginning of year	<u>(11,425,295)</u>	<u>(10,313,132)</u>
Deficit, end of year	<u>\$ (11,612,669)</u>	<u>\$ (11,425,295)</u>
Basic loss per share	<u>\$ (0.03)</u>	<u>\$ (0.23)</u>
Weighted average number of shares	<u>7,041,190</u>	<u>4,913,737</u>

Bolivar Gold Corp.
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Consolidated Statements of Cash Flows
(expresses in United States dollars)

	December 31, 2002	December 31, 2001
Operating activities		
Net Loss for period	\$ (187,374)	\$ (1,112,163)
Items not affecting cash		
- Depreciation, depletion and amortization	560	55,323
- Gain on sale of TecnoPetrol AVV	(139,702)	-
- Gain on settlement of labor liabilities	(265,646)	-
- Loss sale of oil & gas properties	-	883,052
- Accrued interest income	(2,930)	-
	<u>(595,092)</u>	<u>(173,788)</u>
Changes in non-cash working capital		
Accounts receivable, inventory and other current assets	(21,786)	(21,997)
Accounts payable and accrued liabilities	<u>114,112</u>	<u>(740,306)</u>
Cash used in operating activities	<u>(502,766)</u>	<u>(936,091)</u>
Financing activities		
Issue of common shares for cash	<u>867,115</u>	<u>-</u>
Cash provided by financing activities	867,115	-
Investing activities		
Proceeds from sale of oil and gas properties	-	787,408
Deferred acquisition costs	(158,378)	-
Investment in European Real Estate	(234,375)	-
Purchase of capital assets	<u>(7,458)</u>	<u>-</u>
Cash (used in) provided by investing activities	<u>(400,211)</u>	<u>787,408</u>
Net decrease in cash	(35,862)	(148,683)
Cash, beginning of year	<u>544,823</u>	<u>693,506</u>
Cash, end of year	<u>\$ 508,961</u>	<u>\$ 544,823</u>

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Notes to Consolidated Financial Statements

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December 31, 2002 and 2001

1. ORGANIZATION AND NATURE OF OPERATIONS

The Company is incorporated under the Business Corporations Act (Yukon). The Company is currently engaged in the investigation and acquisition of mineral properties; as such, the Company is considered to be in the development stage. Prior to March 31, 2001, the Company was in the oil and gas exploration and production business.

2. GOING CONCERN UNCERTAINTY

The Company has a working capital surplus at December 31, 2002 of approximately \$0.2 million (a deficit of \$0.1 million at December 31, 2001). These consolidated financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will realise the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations. There is substantial doubt about the appropriateness of the use of the going concern assumption because of the nature of the Company's operations. Continued operations by the Company are dependent upon the Company's ability to complete a public equity financing or generate profitable operations in the future. These consolidated financial statements do not include any adjustment that might be necessary if the assumption of going concern was not appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and use of estimates

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates based on management's judgements. These estimates affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ from those estimates. The consolidated financial statements include the accounts of the Company and all of its incorporated subsidiaries. All significant intercompany transactions and balances have been eliminated.

Capital Costs

Capital assets comprise computer equipment which are stated at cost and amortised using the straight-line method at the annual rate of 30%.

Cash and short-term investments

Short-term investments are held in a bank account earning approximately the equivalent of short-term money market investments.

Revenue recognition

Sales of crude oil were recorded in the period in which the sale occurred. Produced but unsold crude oil was recorded as inventory until sold. Pipeline revenue from the transportation of third party crude oil was recognised when the transportation services were fully provided.

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Income taxes

The Company follows the liability method of income tax allocation. Under this method, current income taxes are recognised for the estimated income tax payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to be reversed. A valuation allowance is recognised to the extent the realisation of future income taxes is not considered more likely than not.

Foreign currency translation

Foreign currency denominated monetary assets and liabilities of Canadian operating and integrated foreign operations are translated at the exchange rate prevailing at the year-end, and revenues and expenses (other than depreciation) at average rates of exchange during the year. Non-monetary assets and liabilities are translated at historical rates of exchange. Exchange gains and losses are recorded in the consolidated statements of operations and deficit.

Financial instruments and financial risks

The fair value of cash and short-term investments, accounts receivable, advances to suppliers, and accounts payable and accrued liabilities approximates their carrying value. The Company has no derivative financial instruments.

Incentive share option plan

The Company has an incentive share option plan, which is described in Note 6. No compensation expense is recorded when stock options are issued to employees. Any consideration paid by employees for exercise of stock options is credited to capital stock. If stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock option cancelled is charged to retained earnings.

Deferred Acquisition Costs

Deferred acquisition costs comprise professional fees incurred in the acquisitions of Carisma Corporation A.V.V. ("Carisma") and Promotora Minera de Venezuela, S.A. ("Promiven"). See Note 10(e). They will be amortised on a unit-of-production basis based on proven and probable reserves of the Promiven properties or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made.

The recoverability of the carrying value of deferred acquisition costs is dependent upon the Company's success in acquiring Carisma and Promiven, the discovery of economically recoverable reserves, the ability of the Company to obtain financing or other means to complete the development of the properties, and future profitable production or proceeds from the disposition of the properties.

Loss Per Share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding during the year.

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Diluted loss per share is similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued using the treasury method.

4. SALE OF PETRONORTE AND DISPOSITION OF REMAINING OIL AND GAS INTERESTS

On June 19, 2001, the Company closed its agreement (the "PetroNorte Transaction") to sell all of its shares in Petroleos del Norte S.A. ("PetroNorte"), the Company's Colombian operating subsidiary, which also had some exploration rights. The consideration for the purchase consisted of the assumption by the purchasers of certain of the liabilities of PetroNorte, which included all of the Company's outstanding bank debt, and the payment of \$1.0 million in cash to the Company. As a result of this transaction, a write-down to net realisable value based on the terms of this agreement was recorded in the 2000 consolidated financial statements of the Company. The Company continued to exercise control over PetroNorte for the first quarter of 2001, as the acquisition agreement was not signed and closed until the second quarter of 2001.

The PetroNorte Transaction is summarised as follows:

Net assets disposed of at cost:

Cash	\$ 146,115
Other assets	4,738,203
Total liabilities	(2,150,200)
Minority interest	<u>(917,543)</u>
Net assets	<u>1,816,575</u>

The movement in cash, as disclosed in the consolidated statements of cash flows, as a result of this transaction, is as follows:

Cash proceeds on sale of PetroNorte	\$ 1,000,000
Less:	
Cash relating to PetroNorte	146,115
Disposal costs on sale of PetroNorte	<u>66,477</u>
Net cash proceeds	<u>787,408</u>

A reconciliation of the loss on disposition of mineral properties is provided as follows:

Net assets disposed of	\$ 1,816,575
Less:	
Net proceeds received	<u>(1,000,000)</u>
Loss on sale before the following:	816,575
Disposal costs on sale of PetroNorte	<u>66,477</u>
Loss on sale of oil and gas properties	<u>883,052</u>

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In 2001, the Company also reverted all but its Alejo Association Contract to Empresa Colombiana de Petroleos ("Ecopetrol"), the state-owned company responsible for the management of oil and gas concessions.

In the case of Alejo, on November 12, 2002, the Company transferred all of the issued and outstanding shares of its sole subsidiary, TP TecnoPetrol A.V.V. ("TP AVV") to A&C Oil and Investment, S.A. ("AC Oil"), a Colombian company. Consideration for the sale was the assumption by AC Oil of all of TP AVV's liabilities, which included an accrual of \$19,173 for an outstanding payment to Ecopetrol for technology transfers, an accrual of \$108,000 to Bayamo Management Corp. (see Note 8(a)) and various other liabilities for which accruals had been made, less a government bond held by TP AVV's Colombian branch office. The net result of such disposition was a gain on the sale of TP AVV of \$139,702.

5. INVESTMENT IN EUROPEAN REAL ESTATE

In April, 2002, the Company entered into an agreement with Toscana Holdings ApS ("Toscana"), a Danish company, whereby Toscana agreed to sell a 50% interest in European Real Estate ApS ("ERE"), a Danish property development company with an interest in a luxury property ("Montingegnoli") to be developed in Tuscany, Italy. In April, 2002, the Company obtained loans from third parties equalling \$400,000, which were used for working capital purposes and to finance its obligations to pay deposits of \$561,000 on the Montingegnoli property. On May 16, 2002, the Company announced that it would not proceed with the acquisition of its 50% interest in ERE, and the Company agreed with Toscana to transfer to Toscana the liability arising from the \$400,000 in loans obtained by the Company in consideration for the cancellation by the Company of \$400,000 it paid on Montingegnoli, leaving an outstanding balance due from Toscana of \$161,000. The Company also agreed to pay up to \$100,000 of consulting, legal and other fees incurred by the Company in evaluating the project (of which \$73,375 has been incurred to date) and to assign the work product therefrom to Toscana, in consideration of Toscana's agreement to (i) grant the Company a 1% interest in ERE, and (ii) repay the remaining balance of \$161,000, plus the \$73,375 in fees paid by the Company, from cash flow from ERE. The \$234,375 account receivable from Toscana is unsecured and bears interest at 5% per year. The Company has accrued interest of \$2,930 as at December 31, 2002.

6. SHARE CAPITAL

On July 30, 2002, the shareholders of the Company approved the consolidation of the Company's common shares on a one-for-six basis and this consolidation was effected August 1, 2002. As a result of the consolidation, the Company's issued and outstanding shares were reduced to 5,752,528. The Company's 2.0 million outstanding warrants pre-consolidation were reduced to 333,333 and the exercise price increased from \$0.063 to \$0.38 and its 2,280,000 incentive share options outstanding pre-consolidation reduced to 380,000 and the corresponding average exercise price increased to \$0.54.

The share, warrant and option numbers in the tables and narrative have been restated to reflect the consolidation in order to aid comparison.

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Authorised

An unlimited number of common shares without par or nominal value.

	December 31, 2002		December 31, 2001	
	Number of Shares	Amount	Number of Shares	Amount
ISSUED AND SUBSCRIBED				
Balance beginning of year	5,419,195	\$ 11,311,980	4,895,070	\$ 11,107,571
Issuance of shares in settlement of debt	<u>-</u>	<u>-</u>	<u>524,125</u>	<u>204,409</u>
Rounding adjustment on consolidation	<u>226</u>	<u>-</u>	<u>-</u>	<u>-</u>
Private placements	<u>7,115,850</u>	<u>882,157</u>	<u>-</u>	<u>-</u>
Less share issue costs	<u>-</u>	<u>(15,042)</u>	<u>-</u>	<u>-</u>
Balance end of year	<u>12,535,271</u>	<u>\$12,179,095</u>	<u>5,419,195</u>	<u>\$ 11,311,980</u>

On February 28, 2002, the Company completed a private placement of 333,333 units at \$0.30 per unit; each unit consisting of one share and one share purchase warrant, exercisable for one year, at \$0.60. The proceeds of the private placement were used for working capital to assist the Company in its search for a business to replace the oil and gas business disposed of by the Company.

On September 26, 2002, the Company completed a private placement of 3,555,553 units at C\$0.16 per unit; each unit consisting of one share and one-half of one share purchase warrant, each whole warrant exercisable for 18 months at C\$0.24. The proceeds of the private placement were used for working capital to assist the Company in its due diligence investigations of the Properties. See Note 10(e).

On October 9, 2002, the Company closed a private placement of 2,141,250 units at C\$0.16 per unit; each unit consisting of one share and one-half of one share purchase warrant, each whole warrant exercisable for 18 months at C\$0.24. The proceeds of the private placement were used for working capital to assist the Company in its due diligence investigations of the Properties and the payment of the initial deposit on the Properties. See Note 10(e).

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December 31, 2002 and 2001

On December 20, 2002, the Company closed a private placement of 1,085,714 units at C\$0.35 per unit; each unit consisting of one share and one-half of one share purchase warrant, each whole warrant exercisable for 18 months at C\$0.50. The proceeds of the private placement were used for working capital to assist the Company in its due diligence investigations of the Properties and the payment of the initial deposit on the Properties. See Note 10(e).

In December 2001, the Company issued 524,125 shares at a deemed price of \$0.39 per share in consideration of the cancellation of \$204,409 in accrued salaries.

Basic loss per share is calculated based upon the weighted average number of shares outstanding during the year. Fully diluted loss per share has not been presented since it is anti-dilutive.

Incentive share option plan

The Company has an incentive share option plan. On July 30, 2002, the shareholders of the Company approved the increase in the number of shares reserved for issuance under the Company's incentive stock option plan to 1,150,506 common shares (equal to 20% of its issued and outstanding capital as at August 1, 2002). Under the plan, the exercise price of each option equals the closing price on the last trading day of the Company's common shares and an option's maximum term is 5 years. Options may be granted by the Board of Directors at any time, and they vest quarterly over 18 months in equal tranches.

The following table presents the continuity of the incentive share options:

	December 31, 2002		December 31, 2001	
	Number of Shares	Weighted Average Exercise Price \$	Number of Shares	Weighted Average Exercise Price \$
Outstanding, beginning of year	113,333	0.96	257,500	0.96
Granted	1,035,000	0.22-0.41	-	-
Expired	(113,333)	0.96	(144,167)	0.96
Outstanding, end of year	1,035,000	0.29	113,333	0.96

The weighted average remaining contractual life is 4.7 years (2001 – 0.6 years).

On March 13, 2002, the Company granted 266,667 stock options to directors and officers of the Company. The options are exercisable at a price of C\$0.60, are subject to a four month hold period and are exercisable until March 13, 2007.

Bolivar Gold Corp.
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On September 17, 2002, the Company granted 553,333 stock options to directors and officers of the Company. The options are exercisable at a price of C\$0.35, are subject to an eighteen-month vesting schedule and are exercisable until September 16, 2007.

On October 17, 2002, the Company granted 75,000 stock options to consultants of the Company. The options are exercisable at a price of C\$0.35, are subject to an eighteen-month vesting schedule and are exercisable until October 16, 2007.

On December 9 and 11, 2002, the Company granted an aggregate of 140,000 stock options to a director and an officer of the Company. The options are exercisable at a price of C\$0.60, are subject to an eighteen-month vesting schedule and are exercisable until December 9, 2007 and December 11, 2007, respectively.

The Company applies the intrinsic value method of accounting for stock-based compensation awards granted to employees. Accordingly, no compensation expense has been recognised for options granted under its incentive share option plan.

Had the incentive share option plan for options granted since January 1, 2002 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 pro forma loss and loss per share would be as follows:

	<u>December, 2002</u>	
	\$	Per share \$
Loss for the year	(187,374)	(0.03)
Stock-based compensation expense	<u>(35,121)</u>	<u>-</u>
Pro forma net loss for the year	<u>(222,495)</u>	<u>(0.03)</u>

For purposes of the above, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants:

- dividend yield – 0%;
- expected volatility – 42.25%;
- risk-free rate of return – 4%; and
- expected life of options – 30 months.

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Warrants

The following table presents the continuity of warrants:

	December 31, 2002			December 31, 2001		
	Number of Shares	Exercise Price	Date of Expiry	Number of shares	Exercise price	Date of expiry
Balance, beginning of period	-	-	-	-	-	-
Granted	3,724,578	0.15-0.32	2003 - 2004	-	-	-
Balance, end of period	3,724,578	0.15-0.32	2003 - 2004	-	-	-

7. INCOME TAXES

The recovery of income taxes varies from the amounts that would be computed by applying the Canadian federal and provincial statutory rates of approximately 39% (2001 – 42%) to income before taxes as follows:

	2002 \$	2001 \$
Expected income tax recovery using statutory income tax rates	73,075	467,108
Tax benefit of losses not currently recognised	<u>(73,075)</u>	<u>(467,108)</u>
	<u>-</u>	<u>-</u>

The tax effects of temporary differences that give rise to significant portions of the future tax assets at December 31, 2002 and 2001 are as follows:

	2002 \$	2001 \$
Non-current		
Canada		
Non-capital losses	733,000	545,000
Capital losses	2,080,700	72,500
Share issue costs	59,000	1,000
	<u>2,872,700</u>	<u>618,500</u>
Valuation allowance	<u>(2,872,700)</u>	<u>(618,500)</u>
	<u>-</u>	<u>-</u>

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The Company has Canadian income tax losses of approximately \$1,880,000 available to reduce Canadian income tax payable in future years. These losses expire in years through to 2009.

8. COMMITMENTS AND CONTINGENCIES

- (a) The Company was party to a Finders Fee Agreement with Bayamo Management Corp. ("Bayamo"), a company controlled by an individual who subsequently entered into a personal management services contract with the Company. In October, 2001, this individual commenced a lawsuit in a Colombian labour court claiming an entitlement to an unspecified redundancy payment as a result of the termination of her employment upon the sale of PetroNorte, on the basis that she was an employee of the Company's Colombian branch. Management of the Company felt that this suit had a low probability of success and therefore made no accrual for it; however, it maintained an accrual for an \$108,000 payment owed to Bayamo, which was reversed upon the sale in 2002 of TP AVV to AC Oil and the assumption of all of TP AVV's liabilities by AC Oil, as set out in Note 4.
- (b) In May, 2002, the Company received a statement of claim from Carlos Castillo, the Company's former President, claiming payment in full of his accrued but unpaid salary of \$380,646. In July, 2002, the Company settled the claim by agreeing to pay \$115,000 over seven months and has commenced making these payments. As at December 31, 2002, \$30,000 remained outstanding.
- (c) In October, 2002, Carisma entered into an agreement with Endeavour Capital Corporation Limited for the provision of financial advisory services related to obtaining bank financing for the development of the Promiven properties. The agreement calls for a work fee of \$10,000 per month, of which payment is not made but accrued for the first four months, paid as to half and accrued as to the remainder for months five and six, and then paid in full thereafter. The agreement also calls for a milestone fee of \$100,000 upon execution of a term sheet offering financing to Carisma, and a success fee of 2.25% upon advance of the debt. The obligations under this agreement have been assumed by the Company.

9. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities as at December 31, 2002 is \$126,667 due to directors of the Company for unpaid salaries. These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by related parties.

10. SUBSEQUENT EVENTS

- (a) On January 9, 2003, the Company's shareholders approved the change of the Company's name to "Bolivar Gold Corp."
- (b) On January 13, 2003, the Company closed a private placement of 400,000 units at C\$0.35 per unit for gross proceeds of \$88,745; each unit consisting of one share and one-half of one share purchase warrant, each whole warrant exercisable for 18 months at C\$0.50. The proceeds of the

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private placement were used for working capital to assist the Company in its due diligence investigations of the Properties and for the down payment of the Promiven purchase price. See Note 10(e).

- (c) On February 5, 2003, Carisma completed the acquisition of Promiven. Consideration at closing consisted of the down payment by Carisma of \$300,000 (the "Initial Deposit"), which was advanced by the Company.
- (d) On February 6, 2003, as subsequently modified, the Company announced that it was proceeding with a private placement of up to 20,000,000 special warrants at C\$0.75, which may, at the agent's option, be increased by up to 5,600,000 special warrants. Each special warrant is convertible into a unit consisting of one share and one-half of a warrant, with each whole warrant being exercisable for a period of five years at an exercise price of C\$1.10. The agent for the private placement will be paid a commission of 6% of the gross proceeds and will receive a warrant exercisable for a period of 18 months from closing for units equal in number to 6% of the special warrants sold, at an exercise price of C\$0.75. The private placement is subject to regulatory approval and is scheduled to close on or about March 11, 2003.
- (e) On February 28, 2003, the Company completed, subject to final approval of the TSX Venture Exchange, its acquisition of Carisma in accordance with the terms of its share purchase agreement with the shareholder of Carisma, dated as of February 5, 2003, and issued 5,000,000 common shares to Carisma's shareholder. Carisma's sole asset was a right to purchase all of the issued and outstanding shares of Promiven, which in turn has a 70% interest in Promotora Minera de Guayana, S.A. ("PMG"). PMG is the title-holder to the Choco 4 and 10 and Bochinche 0, 1 and 2 gold exploration properties in Venezuela (the "Properties") and is a joint venture between Promiven and Corporacion Venezolana de Guayana, a Venezuelan government-owned corporation responsible for the mineral development of the Guayana region of Venezuela.

Consideration for the acquisition consisted of the issuance of 5,000,000 common shares in the Company's capital to the shareholder of Carisma, as well as the assumption of Carisma's purchase obligations to the vendor, Cemex Venezuela S.A.C.A. ("Cemex"), with regard to the Properties. These obligations consist of a payment of the Initial Deposit (see Note 10(c)), \$1.0 million on each of the first and second anniversaries of closing, \$1.2 million on the third anniversary of closing, and \$1.5 million to be paid either in two instalments of \$0.75 million on each of the eighth and ninth anniversaries of the Properties being placed into production or a single instalment of \$1.5 million (or the balance of the \$1.5 million not then paid) within 90 days after reaching a total production of 700,000 ounces of gold from any of the Properties, whichever occurs first. The Company, on behalf of Carisma, is required to provide a guarantee of payment by way of three irrevocable letters of credit in favour of Cemex, in the total amount of \$3.2 million, to be delivered no later than June 4, 2003. A royalty of \$10 or greater per ounce of gold (depending on prevailing gold prices) is also payable on all production from the Properties that exceeds an aggregate of 700,000 ounces.

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The Company has deferred acquisition costs incurred to December 31, 2002 relating to the acquisition of Carisma and Promiven. These costs, in the amount of \$158,378, relate to professional fees incurred in the year.

The closing of the acquisition is subject to final TSX Venture Exchange approval and satisfactory completion of the special warrant financing. See Note 10(d).

- (f) On February 28, 2003 holders of 53,333 share purchase warrants exercisable at C\$0.60 exercised their warrants and received 53,333 common shares of the Company for gross proceeds to the Company of approximately \$21,400. An additional 280,000 C\$0.60 share purchase warrants expired on that date.
- (g) On March 17, 2003, final TSX Venture Exchange approval to the acquisition of Carisma was received.
- (h) On March 17, 2003, the Company closed the private placement of 20,663,103 special warrants at C\$0.75 for gross proceeds of C\$15.5 million. Each special warrant is exchangeable, without the payment of any additional consideration, for a unit consisting of one common share of the Company and one-half of one share purchase warrant. Each whole share purchase warrant will entitle the holder to purchase one additional share of the Company at a price of C\$1.10 for a period of five years.

The agents for the special warrant financing received a commission of 6% of the gross proceeds, equal to C\$0.9 million, as well as a compensation option exchangeable into 1,239,786 units at C\$0.75 for a period expiring September 17, 2004. These units have the same characteristics as those issued to subscribers to the private placement.

The Company also closed a separate financing on the same terms as the special warrant financing for an additional 40,000 special warrants for proceeds of C\$30,000.

75% of the proceeds of the net proceeds of the special warrant financing have been placed into escrow, with 20% to be released upon the Company filing its preliminary prospectus qualifying the issue of the units and the remaining 55% to be obtained upon the Company obtaining a receipt for its final prospectus. If a receipt for a final prospectus is not issued by June 17, 2003, each special warrant will be exchangeable for 1.1 units for no additional consideration.

- (i) On April 1, 2003, the Company amended Carisma's agreement with Endeavour by including in their mandate project acquisitions or divestitures and corporate mergers and acquisitions, or similar business combinations involving Carisma or the Company, as well as any possible equity offering. The fees payable under their original mandate were also amended to include a 2% success fee payable upon an acquisition, divestiture or business combination, and 1% for an equity offering. All other fees remained unamended.
- (j) On April 3, 2003, the Company announced that it had reached an agreement to purchase the processing facilities of Hecla Mining Company that are currently located at Hecla's Grouse Creek

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- site in Idaho, U.S.A, which the Company intends to relocate to its Choco 10 property. The grinding, gravity concentration, carbon adsorption and Merrill-Crowe precipitation facilities were designed to process 5,400 tonnes of gold ore per day. The acquisition price for the equipment was \$1.5 million, payable in four installments 75 days apart, commencing May 15, 2003, of \$375,000.
- (k) On April 22, 2003, the Company closed the private placement of 1,535,000 special warrants at C\$0.75 for gross proceeds of C\$1.2 million. Each special warrant bears the same characteristics and is subject to the same escrow and penalty conditions as set forth in Note 10(h). The agents for this special warrant financing received a commission of 6% of the gross proceeds, equal to C\$69,075, as well as a compensation option exchangeable into 92,100 units at C\$0.75 for a period expiring September 17, 2004.
- (l) On April 29, 2003, the Company filed its preliminary prospectus seeking to qualify the units underlying the 22,238,103 special warrants it issued in March and April 2003. Upon obtaining a receipt for the filing of the preliminary prospectus, 20% of the escrowed funds were released to the Company. See Note 10(h).
- (m) On May 27, 2003, the Company closed the private placement of 3,401,897 special warrants at C\$0.75 for gross proceeds of C\$2.6 million. Each special warrant bears the same characteristics and is subject to the same escrow and penalty conditions as set forth in Note 10(h). The agents for this special warrant financing received a commission of 6% of the gross proceeds, equal to C\$153,085, as well as a compensation option exchangeable into 204,114 units at C\$0.75 for a period expiring September 17, 2004.
- (n) On May 27, 2003, the Company, Cemex and Carisma signed an addendum to the agreement dated as of February 4, 2003 under which Carisma acquired Promiven; under the addendum, the Company agreed to pay Cemex a lump sum of US\$2,950,000 in final satisfaction of Carisma's obligation to pay an aggregate of \$3.2 million to Cemex between February 4, 2004 and February 4, 2006. As a result, the Company has no obligation to obtain the \$3.2 million in irrevocable letters of credit in favour of Cemex. See Note 10(e).
- (o) On May 30, 2003, the Company obtained a receipt for its final prospectus qualifying the units underlying the 25,640,000 special warrants it issued in March, April and May 2003. Upon obtaining the receipt for the prospectus, the remainder of the escrowed funds were released to the Company. See Note 10(h).
- (p) On June 23, 2003, Vicenza Corporation AVV, a subsidiary of the Company, signed an agreement with Sawtooth Engine & Aircraft ("Sawtooth") whereby Sawtooth agreed to dismantle and prepare for shipping Hecla's Grouse Creek Mill, for consideration of \$1,296,482.
- (q) On July 8, 2003, the Company and Gold Reserve Inc. ("Gold Reserve") signed a letter of intent whereby the parties agreed to jointly explore and, if warranted, develop Gold Reserve's Choco 5 property in the El Callao district of Venezuela. The Company agreed to fund the initial exploration program, up to a maximum of \$300,000, and earn a 50% interest in the property and

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thereafter each party will contribute equally towards the exploration and development costs. In addition, the Company and Gold Reserve have agreed to jointly pursue other exploration opportunities within a defined area of interest in the El Callao district of Venezuela, excluding the Company's Choco 4 and 10 properties. Completion of the transaction is subject to execution of a definitive agreement and regulatory approval.

- (r) On July 24, 2003, the Company signed a letter of intent with a wholly-owned subsidiary of Gold Fields Ltd. ("Gold Fields") whereby the two companies agreed to jointly acquire, explore and, if warranted, develop gold properties in a defined area of interest in the El Callao area of Venezuela, excluding the Company's Choco 4 and 10 concessions. For all properties acquired under this letter of intent, the Company and Gold Fields shall equally fund all property acquisition costs. Gold Fields will be responsible for funding all costs of exploration through to completion of a bankable feasibility study, with the Company's 50% share of such costs treated as a loan by Gold Fields and recovered preferentially from the Company's share of future cash flows. Gold Fields has the right to increase its interest from 50% to 65% in any project by waiving repayment by the Company of its share of exploration and development costs. Completion of the transaction is subject to execution of a definitive agreement and regulatory approval.
- (s) On August 25, 2003, the Company completed a private placement of 29,629,630 special warrants at C\$1.35, which was, at the underwriters' option, increased to 39,505,926 special warrants. Each special warrant is convertible into a unit consisting of one share and one-half of a warrant, with each whole warrant being exercisable for a period of five years at an exercise price of C\$1.75. The underwriters for the private placement were paid a commission of 6% of the gross proceeds.

TecnoPetrol Inc.

Consolidated Financial Statements

(expressed in U.S. dollars)

DECEMBER 31, 2000

AUDITORS' REPORT

To the Shareholders of
TecnoPetrol Inc.

We have audited the consolidated balance sheet of **TecnoPetrol Inc.** as at December 31, 2000 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada,
March 19, 2001 [except for note 1 which
is as of May 3, 2001].

Chartered Accountants

TecnoPetrol Inc.

Consolidated Balance Sheets
(expressed in United States dollars)

December 31, 2000

Assets

Current assets

Cash and short-term investments	\$ 693,506
Accounts receivable	89,045
Inventory	11,644
Prepays and advances to suppliers	304,206
	<hr/>
	1,098,401

Oil and gas properties (Note 6)

4,079,040

Other assets

314,697

\$ 5,492,138

Liabilities

Current liabilities

Accounts payable and accrued liabilities	\$ 1,714,100
Current portion of loans payable (Note 7)	161,349
	<hr/>
	1,875,449

Loans payable (Note 7)

1,774,843

Other liabilities (Notes 6(e) and 9)

129,864

3,780,156

Minority interest

917,543

Shareholders' Equity

Share capital (Note 8)

11,107,571

Deficit

(10,313,132)

794,439

\$ 5,492,138

Organization and nature of operations (Note 2)

Commitments and contingencies (Notes 5, 6 and 9)

See accompanying notes

Approved by the Board:

/s/ "Carlos Castillo"
Director

/s/ "Miguel de la Campa"
Director

TecnoPetrol Inc.**Consolidated Statements of Operations and Deficit**
(expressed in United States dollars)

	December 31, 2000
Revenue	
Oil sales	\$ 2,083,300
Interest Income	840
Pipeline	1,262,216
Other	<u>46,836</u>
	<u>3,393,192</u>
Expenses	
Operating costs	2,165,330
General and administrative	146,503
Depreciation, depletion and amortization	781,696
Write-down to net realizable value (Note 1)	8,418,006
Ceiling test write-down (Note 6)	<u>-</u>
	<u>11,511,535</u>
Operating loss	(8,118,343)
Net interest expense	277,664
Foreign exchange gain	<u>(82,431)</u>
Loss before minority interest and income taxes	(8,313,576)
Minority interest	<u>(58,615)</u>
Loss before income taxes	(8,372,191)
Income taxes (Note 11)	<u>34,608</u>
Net loss for year	(8,406,799)
Deficit, beginning of year	<u>(1,906,333)</u>
Deficit, end of year	<u>\$ (10,313,132)</u>
Net income loss per share	<u>\$ (0.30)</u>
Weighted average number of shares	<u>28,432,918</u>

See accompanying notes

TecnoPetrol Inc.**Consolidated Statements of Cash Flows**
(expressed in United States dollars)

	December 31, 2000
Operating activities	
Net loss for the year	\$ (8,406,799)
Items not affecting cash	
Depreciation, depletion and amortization	781,696
Write-down to net realizable value	8,418,006
Ceiling test write-down	-
Reclamation provision	112,150
Minority interest	58,615
	<u>963,668</u>
Changes in non-cash working capital balances	
Accounts receivable, inventory and other current assets	468,151
Accounts payable and accrued liabilities	<u>(93,701)</u>
Cash provided by operating activities	<u>1,338,118</u>
Investing activities	
Removal of cash restriction	-
Additions to oil and gas properties	(847,520)
Proceeds from sale of oil and gas properties	-
Decrease (increase) in other assets	7,410
	<u>(840,110)</u>
Cash used in investing activities	<u>(840,110)</u>
Financing activities	
Repayment of loans and advances payable	\$ (270,880)
Unpaid interest	-
Increase in share capital	375,000
Decrease in other liabilities	(49,911)
	<u>54,209</u>
Cash provided by (used in) financing activities	<u>54,209</u>
Net increase (decrease) in cash during the year	\$ 552,217
Cash, beginning of year	<u>141,289</u>
Cash, end of year	<u>\$ 693,506</u>

See accompanying notes

Notes to Consolidated Financial Statements

(expressed in United States dollars)

December 31, 2000

1. PROPOSED SALE OF PETRONORTE AND DISPOSITION OF REMAINING COLOMBIAN OPERATIONS

On May 3, 2001, TecnoPetrol Inc. (the "Company") announced that it had signed a letter of intent to sell to Bioestratgrafica Ltda. and Bayheim Investments (the "Purchasers") all of its shares in Petroleos del Norte S.A. ("PetroNorte"), the Company's Colombian operating subsidiary, which also has exploration rights in the Tisquirama and Lebrija Association Contracts. The sale of these shares would constitute a disposition of substantially all of the assets of the Company. The consideration for the purchase consists of the assumption by the purchaser of all of the liabilities of PetroNorte, which includes all of the Company's outstanding bank debt, and the payment of \$1.0 million in cash to the Company. Closing of the transaction is expected to occur in late June, 2001. A write-down to net realizable value based on the terms of this agreement has been recorded in the 2000 consolidated financial statements of the Company.

The sale of the shares of PetroNorte is subject to shareholder approval and the satisfactory completion of legal, financial, technical and environmental due diligence by the Purchasers prior to closing. The Purchasers have deposited \$250,000 in escrow pending completion of due diligence; if the Purchasers exercise their right not to close the transaction for due diligence reasons, the deposit is refundable; if they do not close for reasons other than those related to due diligence, the deposit is retained by the Company as a penalty.

The Company also intends to dispose of its remaining Colombian operations owned through its Colombian branch in 2001. To date, the Company has not been successful in completing the disposition of its remaining properties in Colombia and its participation agreement with Western Atlas International, Ltd. ("WAIL") has ceased (Notes 6 and 12(b)). As a result, the Company has written off the carrying values of its remaining Colombian properties.

2. ORGANIZATION AND NATURE OF OPERATIONS – GOING CONCERN UNCERTAINTY

The Company is incorporated under the Business Corporations Act (Yukon). The Company is an oil and gas exploration and production company whose current focus is on Colombia. Since the Company's operations are in Colombia, it is subject to certain risks not typically associated with companies in Canada, specifically terrorism. In Colombia, the current process for acquisition, exploration, development and operation of oil and gas properties requires an Association Contract with Empresa Colombiana de Petroleos ("Ecopetrol"), the Colombian state oil company, with the expectation that Ecopetrol would become a 30% joint venture partner in any commercially developed field. For Association Contracts entered into prior to December of 1999 Ecopetrol is allowed up to 50%. The Company is required to sell all of its proportionate share of production from its Colombian properties to Ecopetrol, at internationally set prices (Note 6).

The exploration and development of oil and gas reserves involves significant financial risks. The success of the Company is dependent upon its ability to discover economically recoverable reserves, its ability to obtain necessary financing to complete development of the reserves and the future profitable production from its developed reserves.

The Company has a working capital deficit of \$0.8 million at December 31, 2000. These consolidated financial statements have been prepared on the basis that the Company is a going

Notes to Consolidated Financial Statements

(expressed in United States dollars)

December 31, 2000

concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. If the Company completes the transactions as outlined in Note 1, it is anticipated that the working capital deficit will be eliminated. However, if the transactions are not completed, it is uncertain whether the Company will be able to fulfill its liabilities and maintain its interests in the Association Contracts that are at the exploration stage. These consolidated financial statements do not include any further adjustments, other than those adjustments required to reflect the terms of the letter of intent described in Note 1, to the amounts or classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

All of the Company's long term debt is held in PetroNotre (Note 1). As at April 30, 1999, the Company was unable to make the scheduled interest and principal payments relating to loans payable to Banco Santander (Note 7). As a result, on September 13, 1999, the Company executed an agreement with various banking institutions under which it refinanced its debt and interest payable amounts outstanding as at July 31, 1999 which consisted of the principal amount of loans totaling \$1,997,756 and related interest payable of \$209,316. Under the terms of the agreement, interest on the refinanced principal and interest amount is payable monthly. Payment of the refinanced interest portion is to be made in twelve monthly installments and commenced August 1, 2000, with the principal portion to be repaid over a six year period commencing August 1, 2001. To date, the Company has made all scheduled interest payments (Note 7). In addition, the Company's letter of credit with Ecopetrol for its Alejo project (Notes 6(c) and 12(c)) was replaced with one from the Company's banks, freeing up \$750,000 of the Company's restricted cash, which was then used to pay down existing current liabilities. The Company's pipeline is collateral for the refinanced debt. In addition, the cash receipts related to the transportation of oil through the Company's pipeline are received directly by the banks. Any excess amounts, after satisfaction of the banks' requirements, are forwarded to the Company; however, over the first two years of the agreement, for payments related to the monthly transport in excess of 135,000 barrels, 50% must be applied against the refinanced principal. In year three and thereafter, the level increases to 186,000 barrels.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and use of estimates

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates based on management's judgments. These estimates affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from those estimates. The consolidated financial statements include the accounts of the Company and all of its incorporated subsidiaries. All significant intercompany transactions and balances have been eliminated.

Notes to Consolidated Financial Statements

(expressed in United States dollars)

December 31, 2000

Oil and gas properties

The Company follows the full cost method of accounting for oil and natural gas properties. All costs relating to the acquisition of, exploration for and development of oil and natural gas reserves are capitalized in cost centres on a country by country basis. Capitalized costs include Association Contract acquisition costs, geological and geophysical expenditures, costs of drilling and equipping productive and non-productive exploration and development wells, costs of field production facilities, pipelines and an appropriate share of overhead and financing costs that are related to exploration and development activities.

Capitalized oil and gas property costs are depleted, depreciated and amortized using the unit of production method based on estimated proven gross oil reserves as determined by the Company. Significant development projects are excluded from the depletion calculation prior to assessment of the existence of proven reserves.

The pipeline system, which the Company operates solely for the purpose of transporting third party crude oil, is depreciated on a straight line basis over ten years.

Proceeds received upon the disposition of oil and gas properties are credited against accumulated costs. However, when such a disposition would change the rate of depletion and depreciation by more than 20%, a gain or loss is recorded.

Other capital assets are amortized on a straight-line basis over the estimated useful life of the assets, estimated at between 10 to 20 years for production equipment and 5 to 10 years for corporate assets.

The net carrying value of the Company's oil and gas properties is limited to an estimated recoverable amount by cost centre. This amount is determined by estimating the amount of future net revenues from proven properties based on period-end prices less future production, general and administrative, financing and site restoration costs, royalties and income taxes, together with the value of unproven properties at the lower of cost and realizable value. If it is determined that the net recoverable value is less than the net carrying value of the oil and gas properties, any impairment is charged to income.

Future estimated site restoration costs are accrued and charged against income over the life of the estimated proven oil and natural gas reserves on a unit of production basis.

Cash and short-term investments

Short-term investments are held in a bank account earning approximately the equivalent of short-term money market investments.

Inventories

Crude oil inventory is recorded at the lower of cost, determined on a weighted average basis, and net realizable value. Supplies inventory is recorded at the lower of cost, determined on a weighted average basis, and net replacement cost.

Notes to Consolidated Financial Statements

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Joint ventures

Substantially all of the oil and gas activities of the Company in Colombia are carried out through joint ventures.

Revenue recognition

Sales of crude oil are recorded in the period in which the sale occurs. Produced but unsold crude oil is recorded as inventory until sold. Pipeline revenue from the transportation of third party crude oil is recognized when the transportation services have been fully provided.

Income taxes

The Company follows the liability method of income tax allocation.

Foreign currency translation

Foreign currency denominated monetary assets and liabilities of Canadian operating and integrated foreign operations are translated at the exchange rate prevailing at the year-end, and revenues and expenses (other than depreciation) at average rates of exchange during the year. Non-monetary assets and liabilities are translated at historical rates of exchange. Exchange gains and losses are recorded in the consolidated statements of operations and deficit.

Financial instruments and financial risks

The fair value of cash and short-term investments, accounts receivable, advances to suppliers, and accounts payable and accrued liabilities approximates their carrying value. The fair value of long-term debt is estimated using discounted cash flow analysis based on the current incremental borrowing rates for similar borrowing arrangements. The Company has no derivative financial instruments.

The Company is exposed to foreign currency risk to the extent that substantially all of the activities of its current operations are denominated in Colombian Pesos.

Incentive share option plan

The Company has an incentive share option plan, which is described in Note 8. No compensation expense is recorded when stock options are issued to employees. Any consideration paid by employees for exercise of stock options is credited to capital stock. If stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock option canceled is charged to retained earnings.

Concentration of credit risk

62% of the year-end accounts receivable balance is due from Ecopetrol.

4. CHANGE IN ACCOUNTING POLICIES

Income Taxes

Effective January 1, 2000, the Company adopted the liability method of tax allocation for accounting for income taxes as provided for in the new recommendations of The Canadian Institute of Chartered Accountants. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases

Notes to Consolidated Financial Statements

(expressed in United States dollars)

December 31, 2000

of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The adoption of the liability method of tax allocation has been applied retroactive as at January 1, 2000, without restatement of the prior year consolidated financial statements. There was no effect of the adoption of the liability method as at January 1, 2000.

For reporting periods that ended before January 1, 2000, income tax expense was determined using the deferral method of tax allocation. Under this method, future tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the tax rate in effect in the year the difference originated.

5. BUSINESS ACQUISITION

On September 11, 1997, the Company entered into agreements to purchase 147,560 (60.9%) common shares of PetroNorte for net cash of \$1,711,514. On three separate occasions in 1998, the Company and certain other shareholders acquired additional treasury shares of PetroNorte, the Company's share totaling \$925,051. As a result, the Company was able to increase its interest in PetroNorte to 335,104 common shares, which represented 71.49% of PetroNorte at the time of the last subscription. With the subsequent cancellation of 37,500 PetroNorte shares upon the transfer of PetroNorte's interest in the Puli Association Contract, the Company's interest in PetroNorte increased to 77.7%. Under the terms of these agreements, the Company is required to pay a further \$682,871 to the sellers pending the satisfactory resolution of PetroNorte's re-purchase and cancellation of 95,896 (22.24%) of its own shares, upon which the Company's interest in PetroNorte will increase to 99.93%. The obligation to pay \$682,871 is being assumed by the Purchasers.

6. OIL AND GAS PROPERTIES

		2000
	Cost	Accumulated Depreciation and Write- downs
Oil and gas properties	\$ 13,570,308	\$ 9,861,214
Pipeline system	995,871	773,688
Production equipment	514,840	396,459
Corporate assets	151,786	122,404
	<u>\$ 15,232,805</u>	<u>\$ 11,153,765</u>
Net cost	<u>\$ 4,079,040</u>	

The Company recorded a write-down of \$8,418,006 based on the terms of the proposed sale with Bioestratgrafica Ltda. and Bayheim Investments (Note 1). In 2000, the Company capitalized \$71,426 of general and administrative expenses.

Notes to Consolidated Financial Statements

(expressed in United States dollars)

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The standard term of an Association Contract is for a period of 28 years and under the terms of the contract minimum work is defined, including the amount of existing seismic data to reprocess, the amount of new seismic data to acquire and the number of exploratory wells to drill, all within a defined period of time. Under new regulations effective December, 1999, once Ecopetrol agrees that a hydrocarbon field can be declared commercial it will reimburse 30% of the direct costs and the venture will proceed on a 70% company and 30% Ecopetrol basis with the parties sharing investment cost and production (after payment of a royalty to the Colombian Government of between 5% and 25%, depending on average daily production from the area). Any Association Contract already in place at the time of the new regulations is governed under the old regulations allowing Ecopetrol 50% participation and a royalty of 20% to the Colombian Government. Therefore, all of the Company's Association Contracts, with the exception of the Acordeon Contract (Note 6(g)) are governed under the old regulations. If Ecopetrol declines to support the declaration of a commercial field, the other party, or parties, to the contract may execute such work as deemed necessary in order to exploit such field and would be entitled to reimbursement of 200% of the cost of work performed from the time that Ecopetrol declined involvement until they reconsider and decide to participate. In addition, Ecopetrol would also reimburse its respective interest of the direct costs incurred up to the point that Ecopetrol originally declined involvement. Once Ecopetrol agrees to participate, the joint venture is initiated and then proceeds on either a 70% to the company and 30% to Ecopetrol basis or 50%/50% basis depending on the date of grant of the Association Contract. In both cases Ecopetrol does not receive any production until full reimbursement has taken place. In the event that 60 million barrels of oil are produced prior to the end of the contract, Ecopetrol's interest increases to a maximum of 65% for the duration of the contract. Upon termination of the contract, in either the exploration or development stage, Ecopetrol receives title to all producing wells, and other facilities and equipment, and requires the other parties to assume full responsibility for environmental reclamation.

Property Agreements

In 1999, the Company entered into an Area of Mutual Interest and Participation Agreement (the "Participation Agreement") with WAIL, an affiliated company of Baker Hughes E&P Solutions, Inc. ("Baker Hughes"). Under the Participation Agreement, WAIL was entitled to earn a portion of the Company's interest in the currently non-producing areas of the Santa Lucia and Los Angeles Fields under the Tisquirama Association Contract and in the El Rio Association Contract. WAIL is also directly named as an associate, together with the Company, on the Acordeon Contract. In consideration of these transfers, WAIL agreed to provide technical assistance and services in relation to an initial exploration program that targets cretaceous aged reservoirs in the Middle Magdalena Basin. The assistance and services to be supplied bore a total value of no more than \$7.0 million, based upon the rates normally charged by WAIL for provision of such services. In February, 2001, WAIL ceased to fund this project (Note 12(b)).

- (a) The Tisquirama Association Contract expires in the year 2011 and consists of two fields, the Santa Lucia Field and the Los Angeles Field. PetroNorte has a 25% interest in the Santa Lucia Field.

TecnoPetrol Inc.

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In 1998, PetroNorte transferred its ownership of the Los Angeles Field to the Company's Colombian branch, TecnoPetrol, who gave PetroNorte a 3% net profit royalty. TecnoPetrol is the registered holder of a 50% interest, which will be transferred to PetroNorte as part of the sale of PetroNorte. The Tisquirama Association Contract is in the production stage.

- (b) The Lebrija Association Contract expires in the year 2014 and PetroNorte is the operator and holds a 62.5% interest. This contract is in the production stage.
- (c) The Alejo Association Contract expires in the year 2025 and at December 31, 2000 the Company held a 59.3% interest. In the event that Ecopetrol exercises its right to participate, this interest would be reduced to 29.7%. The Company's initial 100% interest was reduced in 1999 with the transfer of 20% to Carson Services, Inc. ("Carson") in exchange for their execution of an airborne gravity and magnetic survey of the area. The Association Contract is in the exploration stage and the Company was originally obligated to reprocess 250 kilometers of seismic data, execute a program for 150 kilometers of new seismic data and drill two exploratory wells within the first two years of the contract, which commenced in August 1997. In the third year, the Company was obligated to drill one further exploratory well. In 1999, Ecopetrol agreed to accept the survey carried out as satisfying the seismic work requirement and to extend the deadline for completion of the exploratory wells by one year. All exploratory work has been performed to date with the exception of the second exploratory well, work on which was suspended in December of 2000 due to a declaration of force majeure and abandoned subsequent to year end (Note 12(c)). At the date of force majeure, Carson had increased its working interest in the Alejo Association Contract to 33.2% by funding the drilling activities. Another 7.5% interest was transferred to Interprivate Investments Inc. in exchange for providing the drill rig and expertise for the drilling of the Mochila-1 well.

The Company had supplied a letter of credit to Ecopetrol in the amount of \$750,000 as a performance guarantee under the Alejo Association Contract and was also required to restrict \$750,000 of its cash as collateral for this letter of credit. In 1999, the letter of credit was replaced by one issued by the Company's bankers having an initial maturity of November 2000 but which was subsequently amended to April 11, 2001. Due to the force majeure on this property, the letter of credit was not renewed subsequent to April 11, 2001 (Notes 2 and 12(c)).

Related to services provided in respect of the Alejo Association Contract, Valley Energy Ltda. ("Valley") received 200,000 common shares of the Company in 1996, a cash payment of \$400,000 of which \$280,000 was paid in 1997 and \$120,000 in February 1998, and a 2% total gross production royalty payable monthly, if Valley elects to receive cash, or quarterly, if they elect to receive product. As consideration for any further services provided to the Company for new areas and based upon the Company entering into agreements related to exploration and/or drilling which subsequently lead to an economically exploitable hydro-carbon field, Valley would receive a) a cash payment of \$400,000, b) 200,000 shares of the Company and c) a 2.5% total gross production royalty payable monthly if Valley elects to receive cash or quarterly if they elect to receive product. If rights to the Alejo Association Contract are sold by the Company, it is expected that the obligation under this contract shall similarly be transferred to the purchaser.

- (d) The Vuelta Larga Association Contract expires in the year 2025 and the Company originally held a 50% interest through a Participation Agreement with Emerald Energy PLC ("Emerald"). The

Notes to Consolidated Financial Statements

(expressed in United States dollars)

December 31, 2000

Company also supplied a letter of credit to Emerald in the amount of \$500,000 and was required to restrict \$500,000 of its cash as collateral for this letter of credit. In 1999, the Company came to an agreement with Emerald whereby Emerald would draw down the full amount of the letter of credit in exchange for releasing the Company from its funding obligations. The Company's interest at December 31, 1999, therefore, was diluted to 7.15% based on work funded by it at the time of this agreement and at December 31, 2000, had been diluted to zero.

- (e) PetroNorte was party to one Concession Contract, the Tisquirama Concession Contract, which expired in October 1998 and in which it held a 100% interest. This contract was in the production stage. The Company's accrual for the estimated work yet to be carried out related to the environmental liability attached to this contract on reversion to the government was \$17,714 at December 31, 2000.
- (f) The El Rio Association Contract expires in the year 2026 and the Company and WAIL were the registered holders of 30% and 70% interests, respectively. Subsequent to year end, the Company relinquished its interest in this contract (Note 12(a)).
- (g) On December 27, 1999, and effective February 25, 2000, an Association Contract was executed with Ecopetrol for the Acordeon block with ownership being 70% for WAIL and 30% for the Company (Note 12(b)). Ecopetrol has the right to earn up to 30% in the total project. The contract is in the exploration stage. In the first eighteen months, subsequent to the effective date, WAIL and the Company fulfilled their commitment to interpret 360 kilometers of existing seismic data and reproduce and interpret 70 kilometers of existing seismic data, leaving a pending obligation to acquire 100 kilometers of new 3D seismic data.

7. LOANS PAYABLE

The following outlines the terms under which PetroNorte refinanced loans payable during 1999 (Note 2).

	2000
Loan agreement with a financial institution, Banco Santander, with interest of 3.5% above U.S. Prime, which at December 31, 2000 was 9.5%.	\$ 1,600,000
Loan agreement with a financial institution, Banco de Colombia, with interest of 6.0% above the DTF rate (Colombian financial institution market rate, which at December 31, 2000 was 13.28%).(305.8 million pesos).	137,158
Loan agreement with a financial institution, Corp. Financiera, with interest of 6.0% above the DTF rate. (179.6 million pesos).	80,559
Loan agreement with a financial institution, Banco de Occidente, with interest of 6.0% above the DTF rate. (100.5	45,087

TecnoPetrol Inc.**Notes to Consolidated Financial Statements**

(expressed in United States dollars)

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million pesos).

Loan agreement with a financial institution, Banco de Credito, with interest of 6.0% above the DTF rate. (76.1 million pesos).	34,152
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Loan agreement with a financial institution, Corporacion Financiera de los Andes, with interest rate of 6.0% above the DTF rate. (41.7 million pesos).	18,691
--	--------

Loan agreement with a financial institution, Leasing de Occidente with interest rate of 6.0% above the DTF rate. (45.8 million pesos).	20,545
--	--------

1,936,192

Less current portion	(161,349)
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Loans payable	<u>\$ 1,774,843</u>
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The fair values of the loans approximate their book values.

Repayment of the refinanced debt and interest payable amount is as follows:

2001	161,349
2002	484,048
2003	484,048
2004	484,048
2005	322,699
	<u>1,936,192</u>

8. SHARE CAPITAL**Authorized**

An unlimited number of common shares without par or nominal value.

	2000	
	Number of Shares	Amount
ISSUED AND SUBSCRIBED		
Balance beginning of year	25,620,418	\$ 10,732,571
Private placements	<u>3,750,000</u>	<u>375,000</u>
	29,370,418	11,107,571
Less share issue costs	<u>-</u>	<u>-</u>
Balance end of year	<u>29,370,418</u>	<u>\$ 11,107,571</u>

Notes to Consolidated Financial Statements

(expressed in United States dollars)

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In March 2000, the Company completed a private placement under which it issued 3,750,000 shares at a price of \$0.10 per share for proceeds of \$375,000.

Loss per share is calculated based upon the weighted average number of shares outstanding during the year. Fully diluted loss per share has not been presented since it is anti-dilutive.

Incentive share option plan

The Company has an incentive share option plan. Under the plan, the Company may grant options to its employees for up to 1,700,000 common shares. Under the plan, the exercise price of each option equals the closing price on the last trading day of the Company's common shares and an option's maximum term is 10 years. Options may be granted by the Board of Directors at any time, and they vest immediately.

The following table presents the continuity of the incentive share options:

	<u>2000</u>	
	Number Of Shares	Weighted Average Exercise Price \$
Outstanding, beginning of year	1,645,000	0.16
Granted	-	-
Expired	<u>(100,000)</u>	<u>0.16</u>
Outstanding, end of year	<u>1,545,000</u>	<u>0.16</u>

The weighted average remaining contractual life is 1.6 years.

Warrants

The following table presents the continuity of warrants:

	<u>2000</u>		
	Number of Shares	Exercise Price	Date of expiry
Balance, beginning of year	4,800,000	\$ 0.80	2000
Granted	-	-	-
Expired	<u>(4,800,000)</u>	<u>\$ 0.80</u>	<u>-</u>
Balance, end of year	<u>-</u>	<u>-</u>	<u>-</u>

Notes to Consolidated Financial Statements

(expressed in United States dollars)

December 31, 2000

9. COMMITMENTS AND CONTINGENCIES

PetroNorte, as the last operator of the Zulia Concession, was deemed responsible for environmental reclamation upon the expiration of the concession contract in 1995, at the time the concession was returned to Ecopetrol. At that time, no amount was specified by the Colombian government as to the cost of the required reclamation. However, because the government has never sought to enforce its reclamation order and Ecopetrol has operated the concession since its reversion and recently the concession has been granted to a third party for incremental production purposes, management feels that the possibility of the order being enforced is remote. Nonetheless, the Company has reserved \$112,150 (250 million Colombian Pesos) in its results for 2000 against any possible reclamation order, based upon an independent estimate of the cost.

Additionally, the previous operator of the concession had held the concession for 25 years, obtaining 97% of the production, prior to transferring it to PetroNorte. Because, in PetroNorte's opinion, the damages were caused during this period and should be the previous operator's responsibility, PetroNorte filed a civil claim in Colombia against the previous operator for 1 billion Colombian Pesos. In 2000, the court decided against PetroNorte, holding that there was not sufficient proof against the previous operator; however, PetroNorte's recourse has not been exhausted with respect to this claim and management feels confident that any liability will ultimately rest with the previous operator. PetroNorte intends to continue to pursue this claim against the previous operator.

10. RELATED PARTY TRANSACTIONS

(a) Bayamo Management Corp. Finders Fee Agreement

The Company is party to a Finders Fee Agreement with Bayamo Management Corp. ("Bayamo") a company controlled by an individual who subsequently entered into a personal management services contract with the Company. Under the terms of the agreement, Bayamo is to receive a fee of \$100,000 for identification, assistance with negotiations and contract preparation relating to farm-out agreements with companies that have valid Association Contracts with Ecopetrol and to new areas over which Association Contracts may be entered into directly. In addition, a further \$100,000 fee is payable for each area subsequently declared commercial by Ecopetrol.

In 1999, a fee of \$100,000 was recorded for the Acordeon Association Contract, which remains outstanding, and in 1998, a fee for \$100,000 was recorded for the El Rio Association Contract, of which \$4,500 is still outstanding at December 31, 2000. The total liability to Bayamo at December 31, 2000 is \$104,500.

(b) The Company has accrued but unpaid salaries to certain officers of the Company. As at December 31, 2000, these accrued salaries are as follows:

Name	Amount
	\$
Carlos Castillo	317,979
Jose Francisco Arata	192,233
Emir Arzola	43,471
Marino Ostos	57,694

Notes to Consolidated Financial Statements

(expressed in United States dollars)

December 31, 2000

Miguel de la Campa	17,810
Serafino Iacono	2,593

11. INCOME TAXES

Effective January 1, 2000, the Company adopted the liability method of tax allocation for accounting for income taxes. The consolidated financial statements for the prior year have not been restated (Note 4). The following table reconciles the reported income tax expense to the income tax provision that would have been obtained by applying the combined basic Canadian federal and provincial income tax rate of 42% to the Company's income before income taxes and minority interest:

	2000
	Liability
	Method
	\$
Provision for income taxes based on combined basic	
Canadian federal and provincial income tax rate	(3,901,000)
Increase in income taxes resulting from	
Accounting losses not benefited	3,901,000
Colombian minimum tax	34,608
	<u>34,608</u>

The components of income taxes are as follows:

	2000
	\$
Current	
Canadian federal	-
Canadian provincial	-
Colombian minimum tax	34,608
Future	
Canadian federal	-
Canadian provincial	-
Colombian	-

A full valuation allowance has been recorded with respect to future tax assets arising from the temporary differences related to oil and gas properties and the Company's loss carryforwards. There are no other significant temporary differences.

The Company has losses of \$4.4 million (Colombia-\$3.2 million; Canada-\$1.2 million) available to apply against future income for tax purposes. Colombian losses expire in 2004 and Canadian losses in 2007.

Notes to Consolidated Financial Statements

(expressed in United States dollars)

December 31, 2000

12. SUBSEQUENT EVENTS

- (a) On January 4, 2001, the Company relinquished its rights to the El Rio Association Contract, which reverted to Ecopetrol.
- (b) In 2000, Baker Hughes announced that it was seeking a purchaser of the assets of WAIL and as a result, on February 15, 2001, WAIL ceased funding the projects (El Rio, Acordeon, Los Angeles and Santa Lucia) in which they had an interest.
- (c) Prior to year-end, drilling on the Mochila-1 well in the Alejo block was suspended due to the kidnapping of three employees of the drilling contractor; as a result, force majeure was declared and in February, 2001, Ecopetrol consented to the abandonment of the well. Once the force majeure is lifted, the Company's obligations under the Alejo Association Contract can be extended to allow the Company time to comply with its outstanding obligation to drill a second exploratory well. Additionally, the letter of credit supplied by PetroNorte's banks (Note 6(c)) expired on April 11, 2001 and was not renewed by the banks, as the banks felt it was not warranted during the force majeure period when all parties' obligations have been held in abeyance.

Bolivar Gold Corp.
(Formerly TecnoPetrol Inc.)

Pro Forma Consolidated Financial Statements
(expressed in U.S. dollars)

DECEMBER 31, 2002

(Unaudited - See Compilation Report)

James L. Bray *Chartered Accountant*

*4711 Yonge Street, Suite 504
Toronto, Ontario M2N 6K8*

COMPILATION REPORT

To the Board of Directors of
Bolivar Gold Corp. (formerly TecnoPetrol Inc.)

I have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of Bolivar Gold Corp. (formerly TecnoPetrol Inc.) as at December 31, 2002 and pro forma consolidated statement of operations for the year then ended, which have been prepared for inclusion in the prospectus relating to the sale and issue of units, each consisting of one common share and one-half of one warrant, of the Corporation. In my opinion, the pro forma consolidated balance sheet and pro forma statement of operations have been properly compiled to give effect to the proposed transactions described in notes thereto.

Toronto, Ontario
May 27, 2003

"James L. Bray"
Chartered Accountant

Bolivar Gold Corp.
(Formerly TecnoPetrol Inc.)
(unaudited - See Compilation Report)
Pro Forma Consolidated Balance Sheet
As at December 31, 2002
(expressed in U.S. dollars)

	Carisma	Promiven	Bolivar Gold Corp	Pro forma Adjustments (note 3)	Pro forma Consolidated
Assets					
Current assets					
Cash	1,000	297	\$ 508,961	(300,000) (1)	\$ 210,258
Other receivables	-	177,026	22,306	-	\$ 199,332
Due from related parties	5,000	-	-	(5,000) (2)	\$ -
Other receivable	-	-	25,930	-	\$ 25,930
Inventory	-	643	-	(643) (2)	-
	<u>6,000</u>	<u>177,966</u>	<u>557,197</u>	<u>(305,643)</u>	<u>435,520</u>
Mineral properties	-	3,500,000	-	681,193 (3)	4,181,193
Deferred acquisition costs	-	-	158,378	-	158,378
Investment in European Real Estate	-	-	237,305	-	237,305
Capital assets - net of accumulated depreciation	-	-	6,898	-	6,898
	<u>\$ 6,000</u>	<u>\$ 3,677,966</u>	<u>\$ 959,778</u>	<u>\$ 375,550</u>	<u>\$ 5,019,294</u>
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	-	100,924	393,352	-	\$ 494,276
Due to shareholder & affiliated companies	-	-	-	-	-
Other current liabilities	-	21,610	-	2,950,000 (4)	2,971,610
	<u>-</u>	<u>122,534</u>	<u>393,352</u>	<u>2,950,000</u>	<u>3,465,886</u>
Employee severance indemnities	-	8,207	-	-	\$ 8,207
	<u>-</u>	<u>130,741</u>	<u>393,352</u>	<u>2,950,000</u>	<u>3,474,093</u>
Minority interest	-	36,446	-	-	\$ 36,446
Shareholders' Equity					
Share capital	6,000	9,159,161	12,179,095	(8,222,832) (5)	\$ 13,121,424
Deficit	-	(5,648,382)	(11,612,669)	5,648,382 (6)	(11,612,669)
	<u>6,000</u>	<u>3,510,779</u>	<u>566,426</u>	<u>(2,574,450)</u>	<u>1,508,755</u>
	<u>\$ 6,000</u>	<u>\$ 3,677,966</u>	<u>\$ 959,778</u>	<u>\$ 375,550</u>	<u>\$ 5,019,294</u>

See accompanying notes

Bolivar Gold Corp.
(Formerly TecnoPetrol Inc.)
(unaudited - See Compilation Report)
Pro Forma Consolidated Statement of Operations
For the year ended December 31, 2002
(expressed in U.S. dollars)

	Carisma	Promiven	Bolivar Gold Corp	Pro forma Adjustments (note 3)	Pro forma Consolidated
Revenue					
Interest income	-	-	3,095	-	3,095
Expenses					
Operating costs	-	-	-	-	-
General and administrative	-	-	390,539	-	390,539
Depreciation, depletion and amortization	-	-	560	-	560
	-	-	391,099	-	391,099
Operating loss	-	-	(388,004)	-	(388,004)
Interest expense	-	439	-	194,712 (7)	195,144
Business development expense	-	-	214,431	-	214,431
Gain on settlement of labor liabilities	-	-	(265,646)	-	(265,646)
Gain on sale of TecnoPetrol AVV	-	-	(139,702)	-	(139,702)
Adjustment to recoverable value of prospecting, exploration and development costs	-	4,640,225	-	(264,321) -8	4,375,904
Other income, net	-	(81,033)	-	-	(81,033)
Foreign exchange loss (gain)	-	108,092	(9,713)	-	98,379
	-	4,667,723	(200,630)	(69,609)	4,397,484
Loss before minority interest and income taxes	-	(4,667,723)	(187,374)	69,609	(4,785,488)
Minority interest	-	-	-	-	-
Loss before business asset tax	-	(4,667,723)	(187,374)	69,609	(4,785,488)
Business assets tax	-	(94,750)	-	-	(94,750)
Loss for year	-	(4,762,473)	(187,374)	69,609	(4,880,238)
Basic loss per share					\$ (0.41)

See accompanying notes

Bolivar Gold Corp.
(formerly TecnoPetrol Inc.)
Notes to Pro Forma Consolidated Financial Statements
(unaudited – See Compilation Report)
December 31, 2002
(expressed in US dollars)

1. Basis of Presentation

The accompanying pro forma consolidated financial statements of Bolivar Gold Corp. (formerly TecnoPetrol Inc.) have been prepared by management in accordance with Canadian generally accepted accounting principles and the pro forma adjustments described in Note 3.

The pro forma consolidated balance sheet give effect to the acquisition of Carisma Corporation A.V.V. (“Carisma”) on February 28, 2003 and Carisma’s acquisition of Promotora Minera de Venezuela, S.A. (“Promiven”) on February 5, 2003 as if the transactions occurred had occurred on December 31, 2002. The pro forma statement of operations gives effect to these transactions as if they had occurred on January 1, 2002.

The pro forma data may not be indicative of what the financial position and results of operations of the Company would have been had the transactions to which the data gives effect been completed on the date used, nor are such data necessarily indicative of the financial condition and results of operation of the corporation that may exist in the future. The pro forma financial information should be read in conjunction with the notes thereto and the historical financial statements of the Company found elsewhere in the prospectus.

2. Acquisition

On February 28, 2003, the Company completed its acquisition of Carisma in accordance with the terms of its share purchase agreement with the shareholder of Carisma, dated as of February 5, 2003, and issued 5,000,000 common shares to Carisma’s shareholder. Carisma’s sole asset was a right to purchase all of the issued and outstanding shares of Promiven, which in turn has a 70% interest in Promotora Minera de Guayana, S.A. (“PMG”). PMG is the title-holder to the Choco 4 and 10 and Bochinche 0, 1 and 2 gold exploration properties in Venezuela (the “Properties”) and is a joint venture between Promiven and Ferrominera del Orinoco, S.A., a Venezuelan government-owned corporation responsible for the mineral development of the Guayana region of Venezuela.

Consideration for the acquisition consisted of the issuance of 5,000,000 common shares in the Company’s capital to the shareholders of Carisma, as well as the assumption of Carisma’s purchase obligations to the vendor, Cemex Venezuela S.A.C.A. (“Cemex”), with regard to the Properties. These obligations consist of a payment of the Initial Deposit of \$0.3 million on closing, \$2.95 million on or before June 4, 2003, and \$0.75 million on each of the eighth and ninth anniversaries of the Properties being placed into production. Alternatively, the latter two payments must be paid in one instalment of

US\$1.5 million (or the balance of US\$1.5 million not then paid) within 90 days after reaching a total production of 700,000 ounces of gold, if that first occurs. A royalty of \$10 or greater per ounce of gold (depending on prevailing gold prices) is also payable on all production from the Properties that exceeds an aggregate of 700,000 ounces.

The acquisition of Carisma and Promiven was accounted for using the purchase method using the following assumptions:

- (a) Included in other current liabilities is the payment to be made on or before June 4, 2003.
- (b) The Company allotted the 5,000,000 common shares at a deemed value of \$942,329, which was determined using the trading price of the Company's common shares on the TSX Venture Exchange over a reasonable period before and after the date of the agreement.
- (c) The acquisition occurred on December 31, 2002.

Net Assets acquired at fair value:

Cash	\$ 1,297
Current assets	177,026
Mineral properties	4,181,193
Current liabilities	(122,534)
Employee indemnities	(8,207)
Minority interest	<u>(36,446)</u>
	<u>\$4,192,329</u>

Consideration:

Cash	\$ 300,000
Other current liabilities	2,950,000
Issuance of 5,000,000 common shares	<u>\$ 942,329</u>
	<u>\$4,192,329</u>

3. Pro forma adjustments:

- (1) The down payment required in the acquisition of Promiven on February 5, 2003 in the amount of \$300,000.
- (2) Write-down of the related company receivable and inventory to fair market value.

- (3) The accretion of \$681,193 between the carrying value of Mineral properties in the Promiven financial statements and the deemed value of the consideration paid in the acquisition of Carisma and Promiven.
- (4) The assumption of the Carisma purchase obligations in the acquisition of Promiven shares as set out in note 2(a).
- (5) The elimination of share capital of Carisma and Promiven in the amount of \$6,000 and \$9,159,161 respectively. The accretion to share capital in the amount of \$942,329 which represents the issue of 5,000,000 common shares of the Company at a deemed price of \$0.19 per share as consideration for the acquisition of Carisma common shares
- (6) The elimination of pre-acquisition retained earnings of Promiven.
- (7) The financing costs of the obligation had the transaction closed on January 1, 2002.
- (8) The accretion of \$264,321 between the carrying value of Mineral properties in the Promiven financial statements and the deemed value of the consideration paid in the acquisition of Carisma and Promiven had the transaction closed on January 1, 2002. The obligation was discounted at a rate of 7.25%, being the Company's estimated cost of funds.

PROMOTORA MINERA DE VENEZUELA, S. A.
(A wholly-owned subsidiary of Cemex Venezuela, S.A.C.A.)
“PROMIVEN” AND SUBSIDIARIES

Consolidated Financial Statements

31 December 2002, 2001 and 2000

With Independent Auditors' Report Thereon

Independent Auditors' Report

To the Board of Directors and Stockholder of
Promotora Minera de Venezuela, S. A.:

We have audited the accompanying consolidated balance sheets of Promotora Minera de Venezuela, S. A. "Promiven" (a subsidiary of Cemex Venezuela, S.A.C.A.) and subsidiaries as of and for the years ended December 31, 2002, 2001 and 2000, and the related statements of income, stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Venezuela. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated February 1, 2002, we expressed an opinion on the Company's 2001 and 2000 financial statements qualified for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine an appraisal of prospecting, exploration and development costs performed by an independent appraiser, as required by accounting principles generally accepted in Venezuela. As described in note 2 (a) to the consolidated financial statements, the Company has changed its method of accounting for inflation and restated its 2001 and 2000 financial statements, which eliminate the requirement of an appraisal performed by an independent appraiser. Accordingly, our present opinion on the 2001 and 2000 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Promotora Minera de Venezuela, S. A. "Promiven" and subsidiaries as of 31 December 2002, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in Venezuela.

As indicated in note 2 (a) to the consolidated financial statements, in 2002 the Company adopted, applied on a retroactive basis, the general price level method of accounting for recognition of inflation effects in the financial information and, in 2000 adopted the provisions of the revised version of Statement of Accounting Principles N° 10 “Standards for the Preparation of Financial Statements Adjusted for the Effects of Inflation”.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As explained in note 5 to the consolidated financial statements, in 1995 the Company ceased all its operations and the only activity to date is the maintenance of its installations. In 1999, Cemex Venezuela, S.A.C.A., major Company’s stockholder made the decision to sell its participation and in November 1999, a company specialized in ore exploitation submitted an offer to buy the shares. This offer was retired during 2001. During 2002, a new offer was received and a stock sale-purchase agreement was subscribed on February 4, 2003. The continuity of the Company as a going concern depends of the result of this negotiation. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ALCARAZ CABRERA VÁZQUEZ

Angel Delio Zúñiga B.
Certified Public Accountant
C.P.C. N° 42605

7 February 2003

PROMOTORA MINERA DE VENEZUELA, S. A.
"PROMIVEN" AND SUBSIDIARIES
(Subsidiary of Cemex Venezuela, S.A.C.A.)

Consolidated Balance Sheets

December 31, 2002, 2001 and 2000

(Expressed in thousands of constant bolivars as of December 31, 2002)

Assets	2002	2001	2000
	<u> </u>	<u> </u>	<u> </u>
Current assets:			
Cash	417	701	668
Due from shareholder and affiliated companies (note 6)	-	176,304	472,705
Other receivables (note 4)	248,367	363,468	357,338
Inventories	<u>902</u>	<u>1,183</u>	<u>4,958</u>
Total current assets	249,686	541,656	835,669
Property, machinery and equipment:			
Machinery and equipment	893,012	893,012	893,012
Less accumulated depreciation	<u>(893,012)</u>	<u>(893,012)</u>	<u>(893,012)</u>
Net property, machinery and equipment	-	-	-
Prospecting, exploration and development costs (note 5)	<u>4,910,500</u>	<u>7,952,091</u>	<u>10,312,069</u>
Total assets	<u><u>5,160,186</u></u>	<u><u>8,493,747</u></u>	<u><u>11,147,738</u></u>
Liabilities and Stockholder's Equity			
Current liabilities:			
Notes payable to banks (note 3)	-	9,945	10,312
Due from shareholder and affiliated companies (note 6)	30,319	-	-
Accrued expenses and other payables	<u>141,596</u>	<u>200,318</u>	<u>174,634</u>
Total current liabilities	171,915	210,263	184,946
Employees' severance indemnities	<u>11,515</u>	<u>23,396</u>	<u>16,520</u>
Total liabilities	183,430	233,659	201,466
Minority interest	88,691	88,691	88,691
Stockholder's equity (note 7):			
Common stock	17,460,002	17,460,002	17,460,002
Retained earnings (deficit)	(12,571,937)	(9,296,385)	(6,604,591)
Effects of translation	<u>-</u>	<u>7,780</u>	<u>2,170</u>
Total stockholder's equity	<u>4,888,065</u>	<u>8,171,397</u>	<u>10,857,581</u>
Total liabilities and stockholder's equity	<u><u>5,160,186</u></u>	<u><u>8,493,747</u></u>	<u><u>11,147,738</u></u>

See accompanying notes to consolidated financial statements.

PROMOTORA MINERA DE VENEZUELA, S. A.
"PROMIVEN" AND SUBSIDIARIES
(Subsidiary of Cemex Venezuela, S.A.C.A.)

Consolidated Statements of Income

Years ended December 31, 2002, 2001 and 2000

(Expressed in thousands of constant bolivars as of December 31, 2002)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Comprehensive financing income (cost):			
Interest expense	(568)	(630)	(6,138)
Foreing exchange gain (loss), net	8,553	(22,546)	25,845
Result on monetary position (note 9)	<u>(42,397)</u>	<u>(57,461)</u>	<u>307,057</u>
Total comprehensive financing income (cost)	(34,412)	(80,637)	326,764
Other income (expenses):			
Adjustment to recoverable value of prospecting, exploration and development costs	(3,287,719)	(2,546,089)	(903,627)
Miscellaneous, net	<u>165,849</u>	<u>15,796</u>	<u>5,739</u>
Loss before business assets tax	(3,156,282)	(2,610,930)	(571,124)
Business assets tax (note 8)	<u>(119,270)</u>	<u>(80,864)</u>	<u>(37,787)</u>
Net loss	<u>(3,275,552)</u>	<u>(2,691,794)</u>	<u>(608,911)</u>

See accompanying notes to consolidated financial statements.

PROMOTORA MINERA DE VENEZUELA, S. A.
"PROMIVEN" AND SUBSIDIARIES
(Subsidiary of Cemex Venezuela, S.A.C.A.)

Consolidated Stockholder's Equity

Years ended December 31, 2002, 2001 and 2000

(Expressed in thousands of constant bolivars as of December 31, 2002)

	Capital stock		Retained earnings (deficit)			Effects of translation	Total stockholder's equity
	Common shares	Inflation adjustment	Unappropriated	Legal reserve	Cumulative effects of inflation		
Balances at December 31, 1999	330,000	13,538,161	(7,671,049)	73,760	1,601,609	2,460	7,874,941
Transfer to unappropriated retained earnings	-	-	1,601,609	-	(1,601,609)	-	-
Net loss	-	-	(608,911)	-	-	-	(608,911)
Effects of translation	-	-	-	-	-	(290)	(290)
Capital stock increase	<u>2,397,959</u>	<u>1,193,882</u>	-	-	-	-	<u>3,591,841</u>
Balances at December 31, 2000	2,727,959	14,732,043	(6,678,351)	73,760	-	2,170	10,857,581
Net loss	-	-	(2,691,794)	-	-	-	(2,691,794)
Effects of translation	-	-	-	-	-	5,610	5,610
Balances at December 31, 2001	2,727,959	14,732,043	(9,370,145)	73,760	-	7,780	8,171,397
Net loss	-	-	(3,275,552)	-	-	-	(3,275,552)
Effects of translation	-	-	-	-	-	(7,780)	(7,780)
Balances at December 31, 2002	<u>2,727,959</u>	<u>14,732,043</u>	<u>(12,645,697)</u>	<u>73,760</u>	<u>-</u>	<u>-</u>	<u>4,888,065</u>

See accompanying notes to consolidated financial statements.

PROMOTORA MINERA DE VENEZUELA, S. A.
"PROMIVEN" AND SUBSIDIARIES
(subsidiary of Cemex Venezuela, S.A.C.A.)

Consolidated Statements Cash Flows

Years ended December 31, 2002, 2001 and 2000

(Expressed in thousands of constant bolivars as of December 31, 2002)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:			
Net loss	(3,275,552)	(2,691,794)	(608,911)
Items not affecting cash flows (note 10)	<u>3,406,989</u>	<u>2,626,953</u>	<u>995,383</u>
Net cash provided by (used in) operating results	131,437	(64,841)	386,472
Due from shareholder and affiliated companies	206,623	296,402	(3,569,690)
Other receivables	115,101	(6,130)	34,124
Inventories	281	3,775	(638)
Accrued expenses and other payables	<u>(178,298)</u>	<u>(55,181)</u>	<u>(89,224)</u>
Net cash provided by (used in) operating activities	275,144	174,025	(3,238,956)
Cash flows from investing activities - prospecting, exploration and development cost	(253,602)	(180,501)	(365,773)
Cash flows from financing activities:			
Notes payable to banks	(9,945)	(367)	7,804
Provision for employees' severance indemnities	(11,881)	6,876	3,449
Capital stock increase	<u>-</u>	<u>-</u>	<u>3,591,841</u>
Net cash provided by (used in) financing activities	<u>(21,826)</u>	<u>6,509</u>	<u>3,603,094</u>
Net increase (decrease) in cash	(284)	33	(1,635)
Cash at beginning of year	<u>701</u>	<u>668</u>	<u>2,303</u>
Cash at end of year	<u><u>417</u></u>	<u><u>701</u></u>	<u><u>668</u></u>
Result on monetary position consist of:			
Cash	(167)	(129)	(310)
Operating activities	(45,762)	(59,699)	253,778
Financing activities	<u>3,532</u>	<u>2,367</u>	<u>53,589</u>
Gain (loss) on monetary position	<u><u>(42,397)</u></u>	<u><u>(57,461)</u></u>	<u><u>307,057</u></u>

See accompanying notes to consolidated financial statements.

PROMOTORA MINERA DE VENEZUELA, S. A.
“PROMIVEN” AND SUBSIDIARIES
(Subsidiary of Cemex Venezuela, S. A.C.A.)

Notes to Consolidated Financial Statements

December 31, 2002, 2001 and 2000
(In thousands of constant bolivars at December 31, 2002)

(1) Business Description

Promotora Minera de Venezuela, S. A. “Promiven” was incorporated on January 13, 1987. The Company is mainly engaged in the acquisition, exploration and development of mineral properties, commercialization and all other related activities. In addition, is engaged to contract and provide technical assistance, administrative services and finance consulting. On 1995, the Company ceased all its operations and the only activity to date is the maintenance of its installations.

(2) Summary of Significant Accounting Policies

(a) Inflation Adjusted Financial Statements

The consolidated financial statements were prepared in accordance with generally accepted accounting principles in Venezuela. The consolidated financial statements recognize the effects of inflation on the financial information using the general price level method, in accordance with Statement of Accounting Principles N° 10 (DPC-10), “Standards for the Preparation of Inflation-adjusted Financial Statements”, issued by the Venezuelan Federation of Colleges of Public Accountants. In December 2000, DPC-10 was revised and integrated with other related publications introducing some changes with respect to the original statement. The most important changes relate to disclosure and presentation requirements of the effects of inflation on the financial information, which were adopted by the Company in 2000.

In prior years the Company recognized the effects of inflation on its financial information using the mixed method in conformity with the accounting policies of Cemex Venezuela, S.A.C.A. During 2002 and according with the subscription of the stocks sale-purchase agreement mentioned en note 5, the Company has changed its method of accounting for inflation and restated its 2001 and 2000 financial statements.

The principal Consumer Price Indices (CPI) issued by the Central Bank of Venezuela and used to recognize the effects of inflation follows:

	<u>CPI</u>	<u>Variation</u>
31 December 2002	303.5	31.2%
31 December 2001	231.3	12.3%
31 December 2000	206.0	13.4%
31 December 1999	<u>181.6</u>	<u>20.0%</u>

For the purposes of comparison in a currency of homogeneous purchasing power, the financial statements as of 31 December 2001 and 2000, and for the years then ended have been restated in terms of purchasing power bolivars as of 31 December 2002, based on the CPI.

(b) Principles of Consolidation

The consolidated financial statements includes the accounts of Promotora Minera de Venezuela, S. A. “Promiven” and its subsidiaries Promotora Minera Guayana, S. A. and Oromit Co. Ltd, a foreign subsidiary, on which the Company has a controlling financial interest.

PROMOTORA MINERA DE VENEZUELA, S. A.
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(Subsidiary of Cemex Venezuela, S. A.C.A.)

Notes to Consolidated Financial Statements

December 31, 2002, 2001 and 2000
(In thousands of constant bolivars at December 31, 2002)

All significant intercompany balances and transactions have been eliminated in consolidation.

At the Extraordinary Stockholder Meeting held on November 12, 2002, the merger of Oromit Co. Ltd. and Promotora Minera de Venezuela, S. A. “Promiven” was approved.

(c) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. As of December 31, 2002, 2001 and 2000, the carrying amounts of cash, accounts receivable and payable and notes payable to banks approximate their estimated fair value because of the short maturity of these instruments.

(d) Inventories

Inventories are stated at average cost, expressed in bolivars of purchasing power at 31 December 2002, which does not exceed their net realizable value.

(e) Property, Machinery and Equipment

Property, machinery and equipment are stated at cost, expressed in bolivars of purchasing power at 31 December 2002, which does not exceed their recoverable amount through future operations. Depreciation is calculated based on historical cost, adjusted by coefficients derived from the CPI, using the straight-line method over the estimated useful lives of the assets ranging 5 to 8 years.

(f) Prospecting, Exploration and Development Costs

Prospecting, exploration, and development costs are stated at realization value estimated by management. Prospecting, exploration, and development costs are capitalized according with the “total cost” method, and the objective is to consider all the activities of the Company as a single unit. All the costs are considered as part of a general effort without considering particular results in each project. Permanent reductions in the estimated value of prospecting, exploration, and development costs are included in the operating results of the year when determined.

(g) Employees’ Severance Indemnities

The Company accrues the estimated liability to cover employees’ severance indemnities established by the Venezuelan Labor Law, which are considered vested rights of the workers, and is presented net of advances in accordance with the law.

(h) Stockholder’s Equity

The capital stock and deficit are restated using the CPI from the date of contribution or origin.

The cumulative effect of exposure to inflation was the result of all updatings performed under the constant price approach, determined at the beginning of the first period in which inflation-adjusted financial statements were presented. According with new requirements of the DPC-10 the balance of cumulative effect of exposure to inflation was transferred to deficit in 2000.

PROMOTORA MINERA DE VENEZUELA, S. A.
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Translation adjustment consist of the effect of translating foreign operation, which was translated into bolivars using the exchange rate at closing date for balance sheet accounts and the average exchange rate for the year for income statement accounts.

(i) Results of Operations

Income, costs and expenses were restated to bolivars of purchasing power at December 31, 2002 based on the CPI for the month in which the transactions were performed, except for costs and expenses associated with non monetary items that were restated based on the consumption, sale or depreciation of such items.

(j) Result on Monetary Position

The result on monetary position is calculated by applying the CPI for the period to net monetary assets and liabilities. It represents the net result of exposure to inflation due to holding net monetary liabilities or assets during inflationary periods, since in the time the monetary liabilities can be paid with bolivars of less purchasing power (gain), while monetary assets decrease in real terms (loss). The net result is presented forming part of comprehensive financing income (cost) and, consequently, of net income.

(k) Foreign Currency Transactions

Foreign currency transactions are recorded at the exchange rate prevailing in the market on the transaction date. Exchange fluctuations are included in the results of each year.

(l) Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the realization value of prospecting, exploration, and development costs and valuation allowances for receivables and inventories. Actual results could differ from those estimates.

(m) Impairment

At the date of its balance sheets the Company reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are included in the results of the year. When a restated value that already reflects the adjusted historical cost is reduced to its recoverable value, such decrease represents a permanent reduction in the corresponding value of the asset.

The recoverable amount of an asset is the greater of their net selling price and value in use. In assessing value in use the future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the specific risks of the asset. For those assets that do not generate an independent cash flow, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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Notes to Consolidated Financial Statements

December 31, 2002, 2001 and 2000
(In thousands of constant bolivars at December 31, 2002)

(3) Balances and Transactions in Foreign Currency

Net position in foreign currency consists of a loan for US\$10,000 subscribed with Banco Mercantil on December 26, 2000, renewed on November 30, 2001, with a 1-year term and annual interest of LIBOR + 3.8%.

The exchange rates as of December 31, 2002, 2001 and 2000 were Bs1.403, Bs758 and Bs700 to US\$1, respectively.

On 21 January 2003, the National Government and the Central Bank of Venezuela suspended all transactions with foreign currencies and on 5 February 2003, they entered into a Foreign Exchange Agreement establishing a Regime for the Administration of Foreign Currencies. According to the new exchange regime, the Central Bank of Venezuela will centralize the purchase and sale of foreign currencies in the country, establishing an exchange rate of Bs1,596 per US\$1 for the purchase and Bs1,600 per US\$1 for the sale. This exchange rate has been fixed under common agreement with the National Government and will be adjusted when they deem it convenient. Likewise, the Commission for the Foreign Currency Administration (CADIVI) was created to be responsible for the coordination, administration, control and establishment of requirements, procedures and restrictions required by the execution of the Exchange Agreement.

Foreign currencies entering the country for any concept will be obligatorily sold to the Central Bank of Venezuela. The acquisition of foreign currencies for transfers, payment of imports of goods and services as well as principal and interest amounts of the private external debt duly registered will be limited and subject to the requirements and conditions established by CADIVI. Likewise, for the acquisition of foreign currencies for the payment of dividends and interests as a result of a direct foreign investment, as well as for the payment of service contracts, technology, royalties and other, companies must be registered with the corresponding register. In addition, the purchase and sale, in bolivars, of debt instruments of the Republic issued in foreign currency are suspended until the Central Bank and the National Government establish the standards through which these transactions can be made.

(4) Other Accounts Receivable

Other accounts receivable as of December 31, 2002, 2001 and 2000, consist of the following:

	2002	2001	2000
Value added tax	247,242	322,911	355,642
Prepaid taxes	-	39,527	-
Other	1,125	1,030	1,696
	248,367	363,468	357,338

(5) Prospecting, Exploration and Development Costs

Prospecting, exploration, and development costs (auriferous project), include costs incurred in evaluation of auriferous research projects according to concessions and association agreements with Corporación Venezolana de Guayana (CVG). These costs are deferred, with the purpose of associating it with future benefits that might generate from the commercial exploitation of the aforementioned minerals.

PROMOTORA MINERA DE VENEZUELA, S. A.
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On 1991, The Company discontinued research and exploitation of Mina de Oro I project, dedicating all efforts of investigation in the exploration of concessions Bochinche I and II, and Choco 4 and 10. On 1995, the Company ceased all its operations and the only activity to date is the maintenance of its installations.

In 1999, Cemex Venezuela, S.A.C.A., major Company's stockholder made the decision to sell its participation in the auriferous project. In this connection, in July 1999, the Company invited a group of companies specialized in ore exploitation to participate in the sales process of 51% (now 100%) of its own shares. The invitation requested from interested companies to include in their preliminary offers the following items: 1) an exploration and investment plan; 2) an initial payment and annual payments during the exploration stage; 3) a final payment at the end of the exploration period based on exploration results; and 4) an optional payment based on the excess findings obtained at the end of the exploration.

On 15 November 1999 (as amended on 1 March 2000), one of the participant companies submitted an offer to buy the shares. The investment and exploration program presented by the company included for the first year, a minimum payment of US\$1 million, plus annual payments of US\$200 thousand for the following two years of the option. The payment will be determined on the basis of ounces of gold extracted from 35.7% of mineral reserves, up to a maximum of 400,000 ounces of gold, but it will not be lower than 300.000 ounces of gold. The company will also include, for the following 10 years, a payment per ounce extracted from the reserve that is not part of the Reserve Feasibility Study, as of the effective date of the final agreement, everything in accordance with the details specifically defined in the offer. This offer was retired during 2001.

On October 3, 2002, Cemex de Venezuela, S.A.C.A. agreed to sell the common shares it owns in Promotora Minera de Venezuela, S. A. to Carisma Corporation A.V.V. Consideration for the sale of this shares consists of a payment of US\$300,000 on closing; US\$1 million on the first and second anniversaries of closing; US\$1.2 million on the third anniversary of closing, and US\$750,000 on each of the eighth and ninth anniversary of the properties being placed into production. A royalty of US\$10 per ounce or greater, depending on the prevailing gold price, is also payable on all production from the properties that exceed an aggregate of 700,000 ounces. The final stocks sale-purchase agreement was subscribed on February 4, 2003.

(6) Balances with Shareholder Related Companies

The accounts with shareholder and related companies do not have specific maturity date and do not bear any interest.

(7) Stockholder's Equity

The Company's common stock consists of fully paid 2,727,959 common shares, with a par value of Bs1,000 each. All the common shares confer equal rights to their owners.

In November 2000, Cemex Venezuela, S.A.C.A. purchased the remaining 49% of the shares of Promotora Minera de Venezuela, S. A. from Mitsubishi Corporation in order to complete the 100% ownership of the Company.

PROMOTORA MINERA DE VENEZUELA, S. A.
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December 31, 2002, 2001 and 2000
(In thousands of constant bolivars at December 31, 2002)

At the Extraordinary Stockholders' Meeting held on September 27, 2000, the stockholders decided to increase the Company's capital through the issue of 2,397,959 common shares, with a par value of Bs1,000 each, fully paid in cash.

Pursuant to the Venezuelan Code of Commerce, the Company must create a legal reserve equivalent to 5% of annual net earnings up to a maximum 10% of capital stock. This reserve is unavailable for distribution to the stockholders unless the company is liquidated.

(8) Income Taxes

Until December 31, 1999, Cemex Venezuela, S.A.C.A. and its Venezuelan subsidiaries determined and filed their income tax returns on a consolidated basis, based on the economic unit concept established in the Income Tax Law effective to that date. Due to an amendment to the Income Tax Law effective for the fiscal years beginning after October 1999, commencing in 2000 each company filed income tax returns on an individual basis.

Business Assets Tax Law (BAT) establishes, in general terms, a 1% tax on the net annual average of taxable assets adjusted for the effects of inflation, as a minimum tax payable. When income taxes are less than BAT or the entity incurs tax losses, the BAT will be equivalent to the minimum amount of income tax payable by the Companies each year. The excess of the BAT over the income tax may be carried forward three years as a tax credit.

During the years ended December 31, 2002, 2001 and 2000, the companies presented tax losses. Differences between loss before taxes and tax losses for the years ended December 31, 2002, 2001 and 2000 consist of impairment loss recognized on prospecting, exploration, and development costs and the regular inflation adjustment for fiscal purposes.

As of December 31, 2002, the Company has business assets tax credits and tax losses carry forward which expires during the next three years, amounting to Bs67,818 and Bs97,888, respectively.

(9) Result on Monetary Position

An analysis of the gain (loss) on monetary position for the years ended 31 December 2002, 2001 and 2000 follows (in bolivars).

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Monetary assets	248,784	540,472	830,711
Monetary liabilities	<u>183,430</u>	<u>233,658</u>	<u>203,637</u>
Net monetary position	<u>65,354</u>	<u>306,814</u>	<u>627,074</u>
Monetary loss	(94,830)	(76,638)	(63,899)
Monetary gain	<u>52,433</u>	<u>19,177</u>	<u>370,956</u>
Result on monetary position - gain (loss)	<u>(42,397)</u>	<u>(57,461)</u>	<u>307,057</u>

PROMOTORA MINERA DE VENEZUELA, S. A.
“PROMIVEN” AND SUBSIDIARIES
(Subsidiary of Cemex Venezuela, S. A.C.A.)

Notes to Consolidated Financial Statements

December 31, 2002, 2001 and 2000
(In thousands of constant bolivars at December 31, 2002)

(10) Items not Affecting Cash Flows

Items charged or credited to results for the years ended December 31, 2002, 2001 and 2000, which did not affect cash flows follows (in bolivars):

	2002	2001	2000
Depreciation	-	-	53,970
Adjustment to the net realizable value of prospecting, exploration and development costs	3,287,719	2,546,089	903,626
Provision for income taxes	119,270	80,864	37,787
Result on monetary position - gain (loss)	<u>3,406,989</u>	<u>2,626,953</u>	<u>995,383</u>

(11) Venezuelan Economy Recent Developments

During 2002, the Venezuelan economy experienced a significant decline mainly due to the political conflict between the National Government and Opposition factors. Additionally, on December 2, 2002 Coordinadora Democrática, a group of industrial associations, labor unions, political parties and other entities opposing the current Venezuelan government, called a national civic strike. As a result of this situation, the country's economic activity has decreased and in the case of Cemex Venezuela, S.A.C.A. and subsidiaries, some transactions have been delayed until general situation come back to a normal level of activity. Furthermore, on February 5, 2003 the National Government and the Central Bank of Venezuela subscribed a Foreign Exchange Agreement establishing a new Regime for the Administration of Foreign Currencies (see note 3). To date it is not possible to estimate probable impact of this situation on the financial situation and future operations of the Company.

PROMOTORA MINERA DE VENEZUELA, S. A.
“PROMIVEN” AND SUBSIDIARIES

Supplementary Information

Consolidated Financial Information Expressed
in United States Dollars

December 31, 2002, 2001 and 2000

With Independent Auditors' Report Thereon

Independent Auditors' Report on Supplementary Information

The Board of Directors and Stockholders of
Promotora Minera de Venezuela, S. A.:

We have audited and reported separately herein on the consolidated financial statements of Promotora Minera de Venezuela, S. A. "Promiven" (a subsidiary of Cemex Venezuela, S.A.C.A.) and subsidiaries as of and for the years ended December 31, 2002, 2001 and 2000, expressed in inflation-adjusted bolivars.

Our audits for the years ended December 31, 2002, 2001 and 2000, conducted in accordance with auditing standards generally accepted in Venezuela, was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information - consolidated financial information expressed in United States dollars (U. S. dollars) of Promotora Minera de Venezuela, S. A. "Promiven" and subsidiaries as of and for the years ended December 31, 2002, 2001 and 2000, included in Schedules 1 through 4 are derived from the basic financial statements excluding the adjustments for the recognition of the inflation effects, have been translated into U. S. dollars solely for the convenience of the readers and is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the company. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in bolivars excluding the adjustments for the recognition of the inflation effects have been translated into U. S. dollars on the basis set forth in note 2(b) to supplementary information.

The information included in note 10 to supplementary information on the reconciliation between the presentation of the accompanying consolidated financial information expressed in U. S. dollars and the requirements of the accounting principles generally accepted in Canada are presented for purposes of additional analysis of the supplementary information. We have reviewed the reconciliation and, in our opinion, such information is fairly stated in all material respects in relation to the consolidated financial information expressed in U. S. dollars of Promotora Minera de Venezuela, S. A. "Promiven" and subsidiaries as of and for the years ended December 31, 2002, 2001 and 2000, taken as a whole.

ALCARAZ CABRERA VAZQUEZ

Angel Delio Zúñiga B.
Certified Public Accountant N° 42605

February 7, 2003

PROMOTORA MINERA DE VENEZUELA, S. A.
"PROMIVEN" AND SUBSIDIARIES
(Subsidiary of Cemex Venezuela, S.A.C.A.)

Consolidated Financial Position

December 31, 2002, 2001 and 2000

(Expressed in U.S. dollars)

Assets	2002	2001	2000
Current assets:			
Cash	297	704	647
Due from shareholder and related companies (note 4)	-	177,277	458,400
Other accounts receivable (note 5)	177,026	365,475	346,523
Inventories	<u>643</u>	<u>1,190</u>	<u>4,809</u>
Total current assets	177,966	544,646	810,379
Property, machinery and equipment:			
Machinery and equipment	365,477	365,477	365,477
Less accumulated depreciation	<u>(365,477)</u>	<u>(365,477)</u>	<u>(365,477)</u>
Net property, machinery and equipment	-	-	-
Prospecting, exploration and development costs (note 6)	<u>3,500,000</u>	<u>8,000,000</u>	<u>10,000,000</u>
Total assets	<u><u>3,677,966</u></u>	<u><u>8,544,646</u></u>	<u><u>10,810,379</u></u>
Liabilities and Stockholder's Equity			
Current liabilities:			
Notes payable to banks (note 3)	-	10,000	10,000
Due from shareholder and related companies (note 4)	21,610	-	-
Accrued expenses and other payables	<u>100,924</u>	<u>201,423</u>	<u>169,350</u>
Total current liabilities	122,534	211,423	179,350
Employees' severance indemnities	<u>8,207</u>	<u>23,525</u>	<u>16,020</u>
Total liabilities	130,741	234,948	195,370
Minority interest	36,446	36,446	36,446
Stockholder's equity (note 7):			
Common stock	9,159,161	9,159,161	9,159,161
Retained earnings (deficit)	<u>(5,648,382)</u>	<u>(885,909)</u>	<u>1,419,402</u>
Total stockholder's equity	<u>3,510,779</u>	<u>8,273,252</u>	<u>10,578,563</u>
Total liabilities and stockholder's equity	<u><u>3,677,966</u></u>	<u><u>8,544,646</u></u>	<u><u>10,810,379</u></u>

See accompanying notes to supplementary information - consolidated financial information.

PROMOTORA MINERA DE VENEZUELA, S. A.
"PROMIVEN" AND SUBSIDIARIES
(Subsidiary of Cemex Venezuela, S.A.C.A.)

Consolidated Operating Results

Years ended December 31, 2002, 2001 and 2000

(Expressed in U.S. dollars)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Other income (expenses):			
Interest expense	(439)	(611)	(5,777)
Translation difference	(108,092)	(35,464)	203,190
Adjustment to recoverable value of prospecting, exploration and development costs	(4,640,225)	(2,208,051)	(310,917)
Miscellaneous, net	<u>81,033</u>	<u>20,718</u>	<u>3,867</u>
Loss before business assets tax	(4,667,723)	(2,223,408)	(109,637)
Business assets tax (note 8)	<u>(94,750)</u>	<u>(81,903)</u>	<u>(34,805)</u>
Net loss	<u>(4,762,473)</u>	<u>(2,305,311)</u>	<u>(144,442)</u>

See accompanying notes to supplementary information - consolidated financial information.

PROMOTORA MINERA DE VENEZUELA, S. A.
"PROMIVEN" AND SUBSIDIARIES
(Subsidiary of Cemex Venezuela, S.A.C.A.)

Consolidated Stockholder's Equity

Years ended December 31, 2002, 2001 and 2000

(Expressed in U.S. dollars)

	<u>Common stock</u>	<u>Retained earnings (deficit) Legal reserve</u>	<u>Unappropriated (deficit)</u>	<u>Total stockholders' equity</u>
Balances at December 31, 1999	5,690,143	23,075	1,540,769	7,253,987
Capital increase	3,469,018	-	-	3,469,018
Net loss	-	-	(144,442)	(144,442)
Balances at December 31, 2000	9,159,161	23,075	1,396,327	10,578,563
Net loss	-	-	(2,305,311)	(2,305,311)
Balances at December 31, 2001	9,159,161	23,075	(908,984)	8,273,252
Net loss	-	-	(4,762,473)	(4,762,473)
Balances at December 31, 2002	<u>9,159,161</u>	<u>23,075</u>	<u>(5,671,457)</u>	<u>3,510,779</u>

See accompanying notes to supplementary information - consolidated financial information.

PROMOTORA MINERA DE VENEZUELA, S. A.
"PROMIVEN" AND SUBSIDIARIES
(Subsidiary of Cemex Venezuela, S.A.C.A.)

Consolidated Cash Flows

Years ended December 31, 2002, 2001 and 2000

(Expressed in U.S. dollars)

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:			
Net loss	(4,762,473)	(2,305,311)	(144,442)
Provision for employees' severance indemnities	(15,318)	7,505	3,975
Adjustment to recoverable value of prospecting, exploration and development costs	4,640,225	2,208,051	310,917
Provision for business assets tax	<u>94,750</u>	<u>81,903</u>	<u>34,805</u>
Net cash provided by (used in) operating results	(42,816)	(7,852)	205,255
Due from shareholder and affiliated companies	198,887	281,123	(3,312,712)
Other receivables	188,449	(18,952)	14,263
Inventories	547	3,619	(261)
Accrued expenses and other payables	<u>(195,249)</u>	<u>(49,830)</u>	<u>(73,811)</u>
Net cash provided by (used in) operating activities	149,818	208,108	(3,167,266)
Cash flows from investing activities - prospecting, exploration and development costs	(140,225)	(208,051)	(310,917)
Cash flows from financing activities:			
Capital increase	-	-	3,469,018
Notes payable to banks	<u>(10,000)</u>	<u>-</u>	<u>7,688</u>
Net cash provided by (used in) financing activities	(10,000)	-	3,476,706
Net increase (decrease) in cash	(407)	57	(1,477)
Cash at beginning of year	<u>704</u>	<u>647</u>	<u>2,124</u>
Cash at end of year	<u>297</u>	<u>704</u>	<u>647</u>

See accompanying notes to supplementary information - consolidated financial information.

(1) Business Description

Promotora Minera de Venezuela, S. A. “Promiven” was incorporated on January 13, 1987. The Company is mainly engaged in the acquisition, exploration and development of mineral properties, commercialization and all other related activities. In addition, is engaged to contract and provide technical assistance, administrative services and finance consulting. On 1995, the Company ceased all its operations and the only activity to date is the maintenance of its installations.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial information includes the accounts of Promotora Minera de Venezuela, S. A. “Promiven” and its subsidiaries Promotora Minera Guayana, S. A. (incorporated in Venezuela) and Oromit Co. Ltd, a foreign subsidiary, on which the Company has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation.

At the Extraordinary Stockholder Meeting held on November 12, 2002, the merger of Oromit Co. Ltd. and Promotora Minera de Venezuela, S. A. “Promiven” was approved.

(b) Basis of Translating Financial Statements

The Company maintains all its accounting records in Venezuelan bolivars in accordance with Venezuelan Law. However, solely for the convenience of the readers, the consolidated financial statements as of and for the years ended December 31, 2002, 2001 and 2000 have been translated into United States dollars (U.S. dollars). This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars.

Translation of the financial statements into U.S. dollars is undertaken using the temporal method based on the financial statements expressed in historical bolivars in accordance with Statement of Financial Accounting Standards (SFAS) N° 52, *Foreign Currency Translation*, issued by the Financial Accounting Standards Board of the United States of America. Under this translation method, nonmonetary assets and stockholder’s accounts are translated at historical exchange rates and monetary assets and liabilities are translated using the exchange rate at the closing date. Income and expense items are translated at the average exchange rate for the year, except for those expenses related to nonmonetary items translated using historical exchange rates. Translation adjustments resulting from the translation of the financial statements into U. S. dollars are included in the results of the year.

A summary of exchange rates used in the translation of the financial statements into U.S. dollars for the years ended December 31, 2002, 2001 and 2000, follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Average exchange rate for the year	1,161	724	680
Current exchange rate at year end	<u>1,403</u>	<u>758</u>	<u>700</u>

(c) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. As of December 31, 2002, 2001 and 2000, the carrying amounts of cash, accounts receivable and payable and notes payable to banks approximate their estimated fair value because of the short maturity of these instruments.

(d) Inventories

Inventories are stated at the lower of average cost or market.

(e) Property, Machinery and Equipment

Property, machinery and equipment are stated at cost.

Depreciation on property, machinery and equipment was calculated on the straight-line method over the estimated useful lives of the assets ranging 5 to 8 years.

(f) Prospecting, Exploration and Development Costs

Prospecting, exploration and development costs are stated at realization value estimated by management. Prospecting, exploration and development costs are capitalized according with the "total cost" method, and the objective is to consider all the activities of the Company as a single unit. All the costs are considered as part of a general effort without considering particular results in each project. Permanent reductions in the estimated value of prospecting, exploration, and development costs are included in the operating results of the year when determined.

(g) Employees' Severance Indemnities

The Company accrues the estimated liability to cover employees' severance indemnities established by the Venezuelan Labor Law, which are considered vested rights of the workers, and is presented net of advances in accordance with the law.

(h) Use of Estimates

The preparation of consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the realization value of prospecting, exploration, and development costs and valuation allowances for receivables and inventories. Actual results could differ from those estimates.

(i) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized whenever the carrying amount of an asset exceeds this recoverable amount. Impairment losses are included in the results of the year. When the carrying amount of an asset is reduced to its recoverable value, this represents a permanent reduction in the value of the asset.

The recoverable amount of an asset is its net selling price or value in use. In assessing value in use, the estimated future cash flows are discounted at their present value using a discount rate that reflects current market assessment of the time value of money and the specific risks of the asset. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(3) Balances in Foreign Currency

Net position in foreign currency consists of a loan for US\$10,000 subscribed with Banco Mercantil on December 26, 2000, renewed on November 30, 2001, with a 1-year term and annual interest of LIBOR + 3.8%.

(4) Balances with Shareholder and Related Companies

The accounts with shareholder and affiliated companies do not have specific maturity date and do not bear any interest.

(5) Other Accounts Receivable

Other accounts receivable as of December 31, 2002, 2001 and 2000, consist of the following (in U.S. dollars):

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Value added tax	176,224	324,694	344,878
Prepaid taxes	-	39,745	-
Other	<u>802</u>	<u>1,036</u>	<u>1,645</u>
	<u>177,026</u>	<u>365,475</u>	<u>346,523</u>

(6) Prospecting, Exploration and Development Costs

Prospecting, exploration and development costs (auriferous project), include costs incurred in evaluation of auriferous research projects according to concessions and association agreements with Corporación Venezolana de Guayana (CVG). These costs are deferred, with the purpose of associating it with future benefits that might generate from the commercial exploitation of the aforementioned minerals.

On 1991, The Company discontinued research and exploitation of Mina de Oro I project, dedicating all efforts of investigation in the exploration of concessions Bochinche I and II, and Choco 4 and 10. On 1995, the Company ceased all its operations and the only activity to date is the maintenance of its installations.

In 1999, Cemex Venezuela, S.A.C.A., major Company's stockholder made the decision to sell its participation in the auriferous project. In this connection, in July 1999, the Company invited a group of companies specialized in ore exploitation to participate in the sales process of 51% (now 100%) of its own shares. The invitation requested from interested companies to include in their preliminary offers the following items: 1) an exploration and investment plan; 2) an initial payment and annual payments during the exploration stage; 3) a final payment at the end of the exploration period based on exploration results; and 4) an optional payment based on the excess findings obtained at the end of the exploration.

On 15 November 1999 (as amended on 1 March 2000), one of the participant companies submitted an offer to buy the shares. The investment and exploration program presented by the company included for the first year, a minimum payment of US\$1 million, plus annual payments of US\$200 thousand for the following two years of the option. The payment will be determined on the basis of ounces of gold extracted from 35.7% of mineral reserves, up to a maximum of 400,000 ounces of gold, but it will not be lower than 300,000 ounces of gold. The company will also include, for the following 10 years, a payment per ounce extracted from the reserve that is not part of the Reserve Feasibility Study, as of the effective date of the final agreement, everything in accordance with the details specifically defined in the offer. This offer was retired during 2001.

On October 3, 2002, a subsidiary of Cemex de Venezuela, S.A.C.A. agreed to sell the common shares it owns in Promotora Minera de Venezuela, S. A. to Carisma Corporation A.V.V. Consideration for the sale of this shares consists of a payment of US\$300,000 on closing; US\$1 million on the first and second anniversaries of closing; US\$1.2 million on the third anniversary of closing, and US\$750,000 on each of the eighth and ninth anniversary of the properties being placed into production. A royalty of US\$10 per ounce or greater, depending on the prevailing gold price, is also payable on all production from the properties that exceed an aggregate of 700,000 ounces. The final stocks sale-purchase agreement was subscribed on February 4, 2003.

(7) Stockholder's Equity

The Company's common stock consists of fully paid 2,727,959 common shares, with a par value of Bs1,000 each. All the common shares confer equal rights to their owners.

In November 2000, Cemex Venezuela, S.A.C.A. purchased the remaining 49% (1,336,700 shares) of the shares of Promotora Minera de Venezuela, S. A. from Mitsubishi Corporation in order to complete the 100% ownership of the shares and thus proceed with the 100% of the project.

At the extraordinary stockholders' meeting held on September 27, 2000, the stockholders decided to increase the Company's capital through the issue of 2,397,959 common shares, with a par value of Bs1,000 each, fully paid in cash.

Pursuant to the Venezuelan Code of Commerce, the Company must create a legal reserve equivalent to 5% of annual net earnings up to a maximum 10% of capital stock. This reserve is unavailable for distribution to the stockholders unless the company is liquidated.

(8) Income Taxes

Until December 31, 1999, Cemex Venezuela, S.A.C.A. and its Venezuelan subsidiaries determined and filed their income tax returns on a consolidated basis, based on the economic unit concept established in the Income Tax Law effective to that date. On October 1999, the Official Gazette N° 5390 published an amendment to the Income Tax Law and beginning December 31, 2000, each company filed income tax returns on an individual basis.

Business Assets Tax Law (BAT) establishes, in general terms, a 1% tax on the net annual average of taxable assets adjusted for the effects of inflation, as a minimum tax payable. When income taxes are less than BAT or the entity incurs tax losses, the BAT will be equivalent to the minimum amount of income tax payable by the Companies each year. The excess of the BAT over the income tax may be carried forward three years as a tax credit.

During the years ended December 31, 2002, 2001 and 2000, the companies presented tax losses. Differences between loss before taxes and tax losses for the years ended December 31, 2002, 2001 and 2000 consist of impairment loss recognized on prospecting, exploration and development cost and the regular inflation adjustment for fiscal purposes

As of December 31, 2002, the Company has business assets tax credits and tax losses carry forward which expires during the next three years, amounting to approximately US\$48,000 and US\$70,000, respectively.

(9) Subsequent Events

(a) Venezuelan Economy

During 2002, the Venezuelan economy experienced a significant decline mainly due to the political conflict between the National Government and Opposition factors. Additionally, on 2 December 2002 Coordinadora Democrática, a group of industrial associations, labor unions, political parties and other entities opposing the current Venezuelan government, called a national civic strike. As a result of this situation, the country's economic activity has decreased and for 2003 the gross domestic product will suffer a strong drop that affect most companies in the country.

(b) Foreign Currency

On 21 January 2003, the National Government and the Central Bank of Venezuela suspended all transactions with foreign currencies and on 5 February 2003, they entered into a Foreign Exchange Agreement establishing a Regime for the Administration of Foreign Currencies.

According to the new exchange regime, the Central Bank of Venezuela will centralize the purchase and sale of foreign currencies in the country, establishing an exchange rate of

Bs1,596 per US\$1 for the purchase and Bs1,600 per US\$1 for the sale. This exchange rate has been fixed under common agreement with the National Government and will be adjusted when they deem it convenient. Likewise, the Commission for the Foreign Currency Administration (CADIVI) was created to be responsible for the coordination, administration, control and establishment of requirements, procedures and restrictions required by the execution of the Exchange Agreement.

Foreign currencies entering the country for any concept will be obligatorily sold to the Central Bank of Venezuela. The acquisition of foreign currencies for transfers, payment of imports of goods and services as well as principal and interest amounts of the private external debt duly registered will be limited and subject to the requirements and conditions established by CADIVI. Likewise, for the acquisition of foreign currencies for the payment of dividends and interests as a result of a direct foreign investment, as well as for the payment of service contracts, technology, royalties, etc., companies must be registered with the corresponding register. In addition, the purchase and sale, in bolivars, of bonds of the Republic issued in foreign currency (Brady Bonds) are suspended until the Central Bank and the National Government establish the standards through which these transactions can be made.

(10) Reconciliation of Consolidated Financial Statements with Canadian Accounting Principles

Major difference between accounting principles generally accepted in Venezuela and those in Canada affecting the consolidated financial statements of Promotora Minera de Venezuela, S. A. and subsidiaries, refers to the inflation adjustment in order to reflect the effects of the bolivar purchasing power loss due to inflation. The effect of inflation adjustment has been reversed in the financial statement translation into U.S. dollars.

Additional financial disclosures required under accounting principles generally accepted in Canada are as follows:

(a) *Income Taxes*

In addition to the income tax losses and tax credits available to reduce future taxable income as indicated in note 8, the Companies has undeducted prospecting, exploration and development costs which exceeds carrying value amounting to approximately US\$2.4 millions. The income tax benefit of these tax losses and income tax reductions have not been recognized in the consolidated financial statements as it is considered less than likely that the related future tax asset would be realized.

PROMOTORA MINERA DE VENEZUELA, S. A.
(A wholly-owned subsidiary of Cemex Venezuela, S.A.C.A.)
“PROMIVEN” AND SUBSIDIARIES

Consolidated Unaudited Financial Statements

17 March 2003 and 31 March 2002

PROMOTORA MINERA DE VENEZUELA, S. A.
"PROMIVEN" AND SUBSIDIARIES

Consolidated Balance Sheets

(Expressed in U.S. dollars)

Assets	March 17, 2003	March 31, 2002
Current assets:		
Cash	12,147	(446)
Due from shareholder and affiliated companies (note 3)	22,755	48,274
Other receivables	215,691	459,690
Inventories	643	1,190
Total current assets	251,236	508,708
Property, machinery and equipment:		
Machinery and equipment	366,390	365,477
Less accumulated depreciation	(365,477)	(365,477)
Net property, machinery and equipment	913	-
Prospecting, exploration and development costs (note 4)	3,507,079	8,038,173
Total assets	3,759,227	8,546,881
Liabilities and Stockholder's Equity		
Current liabilities:		
Notes payable to banks	-	10,000
Due from shareholder and affiliated companies (note 3)	56,010	-
Accrued expenses and other payables	143,145	215,662
Total current liabilities	199,155	225,662
Employees' severance indemnities	(3,462)	27,125
Total liabilities	195,693	252,787
Minority interest	36,446	36,446
Stockholder's equity (note 5):		
Common stock	9,159,161	9,159,161
Retained earnings (deficit)	(5,623,073)	(901,513)
Total stockholder's equity	3,536,088	8,257,648
Total liabilities and stockholder's equity	3,768,227	8,546,881

See accompanying notes to consolidated financial statements.

PROMOTORA MINERA DE VENEZUELA, S. A.
"PROMIVEN" AND SUBSIDIARIES
(Subsidiary of Cemex Venezuela, S.A.C.A.)

Consolidated Statements of Income

For the periods ended March 17, 2003 and March 31, 2002

(Expressed in U.S. dollars)

	2003	2002
Comprehensive financing income (cost):		
Interest expense	-	15,605
Foreing exchange gain (loss), net	-	-
Total comprehensive financing income (cost)	-	15,605
Other income (expenses):		
Prospecting, exploration and development costs	8,072	
Administrative expense	9,012	
Miscellaneous, net	(33,393)	-
Loss before business assets tax	(16,309)	15,605
Business assets tax	-	-
Net loss	(16,309)	15,605

See accompanying notes to consolidated financial statements.

PROMOTORA MINERA DE VENEZUELA, S. A.
"PROMIVEN" AND SUBSIDIARIES
(subsidiary of Cemex Venezuela, S.A.C.A.)

Consolidated Statements Cash Flows

Periods ended March 17, 2003 and March 31, 2002

(Expressed in U.S. dollars)

	2003	2002
Cash flows from operating activities:		
Net loss	16,309	(15,605)
Items not affecting cash flows	-	-
Net cash provided by (used in) operating results	16,309	(15,605)
Due from shareholder and affiliated companies	11,645	129,003
Other receivables	(38,665)	(94,215)
Inventories	-	-
Accrued expenses and other payables	42,221	14,239
Net cash provided by (used in) operating activities	31,510	33,422
Cash flows from investing activities - prospecting, exploration and development cost	(7,992)	(38,173)
Cash flows from financing activities:		
Notes payable to banks	-	-
Provision for employees' severance indemnities	(11,669)	3,600
Capital stock increase	-	-
Net cash provided by (used in) financing activities	(11,669)	3,600
Net increase (decrease) in cash	11,850	(1,150)
Cash at beginning of year	297	704
Cash at end of year	12,147	(446)

See accompanying notes to consolidated financial statements.

(1) Business Description

Promotora Minera de Venezuela, S. A. “Promiven” was incorporated on January 13, 1987. The Company is mainly engaged in the acquisition, exploration and development of mineral properties, commercialization and all other related activities. In addition, is engaged to contract and provide technical assistance, administrative services and finance consulting. On 1995, the Company ceased all its operations and the only activity to date is the maintenance of its installations.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial information includes the accounts of Promotora Minera de Venezuela, S. A. “Promiven” and its subsidiaries Promotora Minera Guayana, S. A. (incorporated in Venezuela) and Oromit Co. Ltd, a foreign subsidiary, on which the Company has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation.

At the Extraordinary Stockholder Meeting held on November 12, 2002, the merger of Oromit Co. Ltd. and Promotora Minera de Venezuela, S. A. “Promiven” was approved.

(b) Basis of Translating Financial Statements

The Company maintains all its accounting records in Venezuelan bolivars in accordance with Venezuelan Law. However, solely for the convenience of the readers, the consolidated financial statements as of and for the years ended December 31, 2002, 2001 and 2000 have been translated into United States dollars (U.S. dollars). This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars.

Translation of the financial statements into U.S. dollars is undertaken using the temporal method based on the financial statements expressed in historical bolivars in accordance with Statement of Financial Accounting Standards (SFAS) N° 52, *Foreign Currency Translation*, issued by the Financial Accounting Standards Board of the United States of America. Under this translation method, nonmonetary assets and stockholder’s accounts are translated at historical exchange rates and monetary assets and liabilities are translated using the exchange rate at the closing date. Income and expense items are translated at the average exchange rate for the year, except for those expenses related to nonmonetary items translated using historical exchange rates. Translation adjustments resulting from the translation of the financial statements into U. S. dollars are included in the results of the year.

A summary of exchange rates used in the translation of the financial statements into U.S. dollars for the periods ended March 17, 2003 and March 31, 2002, follows:

	<u>2003</u>	<u>2002</u>
Average exchange rate for the period	1,600	870
Current exchange rate at end of period	<u>1,600</u>	<u>895</u>

(c) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. As of March 17, 2003 and March 31, 2002, the carrying amounts of cash, accounts receivable and payable and notes payable to banks approximate their estimated fair value because of the short maturity of these instruments.

(d) Inventories

Inventories are stated at the lower of average cost or market.

(e) Property, Machinery and Equipment

Property, machinery and equipment are stated at cost.

Depreciation on property, machinery and equipment was calculated on the straight-line method over the estimated useful lives of the assets ranging 5 to 8 years.

(f) Prospecting, Exploration and Development Costs

Prospecting, exploration and development costs are stated at realization value estimated by management. Prospecting, exploration and development costs are capitalized according with the “total cost” method, and the objective is to consider all the activities of the Company as a single unit. All the costs are considered as part of a general effort without considering particular results in each project. Permanent reductions in the estimated value of prospecting, exploration, and development costs are included in the operating results of the year when determined.

(g) Employees’ Severance Indemnities

The Company accrues the estimated liability to cover employees’ severance indemnities established by the Venezuelan Labor Law, which are considered vested rights of the workers, and is presented net of advances in accordance with the law.

(h) Use of Estimates

The preparation of consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the realization value of prospecting, exploration, and development costs and valuation allowances for receivables and inventories. Actual results could differ from those estimates.

(i) Impairment

The carrying amounts of the Company’s assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized whenever the carrying amount of an asset exceeds this recoverable amount. Impairment losses are included in the results of the year. When the carrying amount of an asset is reduced to its recoverable value, this represents a permanent reduction in the value of the asset.

The recoverable amount of an asset is its net selling price or value in use. In assessing value in use, the estimated future cash flows are discounted at their present value using a discount rate that reflects current market assessment of the time value of money and the specific risks of the asset. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(3) Balances with Shareholder and Related Companies

The accounts with shareholder and affiliated companies do not have specific maturity date and do not bear any interest.

(4) Prospecting, Exploration and Development Costs

Prospecting, exploration and development costs (auriferous project), include costs incurred in evaluation of auriferous research projects according to concessions and association agreements with Corporación Venezolana de Guayana (CVG). These costs are deferred, with the purpose of associating it with future benefits that might generate from the commercial exploitation of the aforementioned minerals.

On 1991, The Company discontinued research and exploitation of Mina de Oro I project, dedicating all efforts of investigation in the exploration of concessions Bochinche I and II, and Choco 4 and 10. On 1995, the Company ceased all its operations and the only activity to date is the maintenance of its installations.

In 1999, Cemex Venezuela, S.A.C.A., major Company's stockholder made the decision to sell its participation in the auriferous project. In this connection, in July 1999, the Company invited a group of companies specialized in ore exploitation to participate in the sales process of 51% (now 100%) of its own shares. The invitation requested from interested companies to include in their preliminary offers the following items: 1) an exploration and investment plan; 2) an initial payment and annual payments during the exploration stage; 3) a final payment at the end of the exploration period based on exploration results; and 4) an optional payment based on the excess findings obtained at the end of the exploration.

On 15 November 1999 (as amended on 1 March 2000), one of the participant companies submitted an offer to buy the shares. The investment and exploration program presented by the company included for the first year, a minimum payment of US\$1 million, plus annual payments of US\$200 thousand for the following two years of the option. The payment will be determined on the basis of ounces of gold extracted from 35.7% of mineral reserves, up to a maximum of 400,000 ounces of gold, but it will not be lower than 300,000 ounces of gold. The company will also include, for the following 10 years, a payment per ounce extracted from the reserve that is not part of the Reserve Feasibility Study, as of the effective date of the final agreement, everything in accordance with the details specifically defined in the offer. This offer was retired during 2001.

On October 3, 2002, a subsidiary of Cemex de Venezuela, S.A.C.A. agreed to sell the common shares it owns in Promotora Minera de Venezuela, S. A. to Carisma Corporation A.V.V. Consideration for the sale of this shares consists of a payment of US\$300,000 on closing; US\$1 million on the first and second anniversaries of closing; US\$1.2 million on the third anniversary of closing, and US\$750,000 on each of the eighth and ninth anniversary of the properties being placed into production. A royalty of US\$10 per ounce or greater, depending on the prevailing gold price, is also payable on all production from the properties that exceed an aggregate of 700,000 ounces. The final stocks sale-purchase agreement was subscribed on February 4, 2003.

(5) Stockholder's Equity

The Company's common stock consists of fully paid 2,727,959 common shares, with a par value of Bs1,000 each. All the common shares confer equal rights to their owners.

In November 2000, Cemex Venezuela, S.A.C.A. purchased the remaining 49% (1,336,700 shares) of the shares of Promotora Minera de Venezuela, S. A. from Mitsubishi Corporation in order to complete the 100% ownership of the shares and thus proceed with the 100% of the project.

At the extraordinary stockholders' meeting held on September 27, 2000, the stockholders decided to increase the Company's capital through the issue of 2,397,959 common shares, with a par value of Bs1,000 each, fully paid in cash.

Pursuant to the Venezuelan Code of Commerce, the Company must create a legal reserve equivalent to 5% of annual net earnings up to a maximum 10% of capital stock. This reserve is unavailable for distribution to the stockholders unless the company is liquidated.

(6) Reconciliation of Consolidated Financial Statements with Canadian Accounting Principles

Major difference between accounting principles generally accepted in Venezuela and those in Canada affecting the consolidated financial statements of Promotora Minera de Venezuela, S. A. and subsidiaries, refers to the inflation adjustment in order to reflect the effects of the bolivar purchasing power loss due to inflation. The effect of inflation adjustment has been reversed in the financial statement translation into U.S. dollars.

Additional financial disclosures required under accounting principles generally accepted in Canada are as follows:

(a) *Income Taxes*

In addition to the income tax losses and tax credits available to reduce future taxable income, the Company has undeducted prospecting, exploration and development costs which exceeds carrying value amounting to approximately US\$2.4 millions. The income tax benefit of these tax losses and income tax reductions have not been recognized in the consolidated financial statements as it is considered less than likely that the related future tax asset would be realized.

CERTIFICATE OF THE COMPANY

DATED: August 25, 2003

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia) and its regulations, Part 9 of the *Securities Act* (Alberta) and the regulations under it, and Part XV of the *Securities Act* (Ontario) and the regulations thereunder.

(Signed) SERAFINO IACONO
Chief Executive Officer

(Signed) ROBERT E. DOYLE
Chief Financial Officer

On behalf of the Board of Directors

(Signed) JOSE FRANCISCO ARATA
Director

(Signed) STEPHEN WILKINSON
Director

CERTIFICATE OF THE UNDERWRITERS

DATED: August 25, 2003

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta) and Part XV of the *Securities Act* (Ontario) and the respective regulations thereunder.

GRIFFITHS McBURNEY & PARTNERS

(Signed) MARK WELLINGS

BMO NESBITT BURNS INC.

ORION SECURITIES INC.

SPROTT SECURITIES INC.

(Signed) EGIZIO BIANCHINI

(Signed) KENNETH GILLIS

(Signed) DARREN WALLACE

CANACCORD CAPITAL CORPORATION

McFARLANE GORDON INC.

(Signed) PETER BROWN

(Signed) BRAD GRIFFITHS