

**MATERIAL CHANGE REPORT**  
**PURSUANT TO**  
**NATIONAL INSTRUMENT 51-102**

**1. NAME AND ADDRESS OF COMPANY**

Medoro Resources Ltd. ("Medoro"), 110 Yonge Street, Suite 1502, Toronto, Ontario M5C 1T4.

**2. DATE OF MATERIAL CHANGE**

August 13, 2004

**3. NEWS RELEASE**

A press release disclosing the material change was issued by Medoro on August 13, 2004. A copy of the press release, which was issued through Canada Newswire, is attached hereto as Appendix "A".

**4. SUMMARY OF MATERIAL CHANGE**

Medoro Resources Ltd. announced its results for the fiscal periods ended June 30, 2004.

**5. FULL DESCRIPTION OF MATERIAL CHANGE**

Please see the press release attached hereto as Appendix "A".

**6. RELIANCE ON SUBSECTION 7.1(2) OR (3) OF NATIONAL INSTRUMENT 51-102**

Not applicable.

**7. OMITTED INFORMATION**

Not applicable.

**8. EXECUTIVE OFFICER**

Peter Volk, Assistant Secretary of Medoro, is knowledgeable about the material change and this Report and can be reached at 416-603-4653.

**9. DATED** at Toronto, Ontario this 18<sup>th</sup> day of August, 2004.

**MEDORO RESOURCES LTD.**

By: \_\_\_\_\_  
**Peter Volk**  
**Assistant Secretary**

**Appendix "A"**  
**Press Release**

# MEDORO RESOURCES LTD.

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## *NEWS RELEASE*

### **Medoro Resources Announces Second Quarter Results**

TORONTO, Friday, August 13, 2004 – Medoro Resources Ltd. (TSX-V/AIM: MRL) announced today its second quarter and first half results for the three and eight-month periods ending June 30, 2004. Medoro Resources was formed following the business combination between Full Riches Investments Limited and a wholly-owned subsidiary of Gold Mines of Sardinia, plc.

The new entity, Medoro Resources, has elected to report its financial results on a calendar year basis. Full Riches previously reported its results for the three months ended January 31, 2004, and, having been identified as the acquirer for accounting purposes, this release includes results for both the three and eight-month periods ending June 30, 2004.

For the three and eight-month periods ended June 30, 2004, Medoro Resources reported a loss of \$1.9 million and \$3.0 million or \$0.02 and \$0.05 per share respectively. The loss largely reflects the impact of one-time costs related to the business combination, as well as ongoing operating costs at its 90%-owned operating subsidiary in Sardegna.

In Sardegna at the Monte Ollasteddu prospect, all remaining issues related to site access and exploration permits were resolved and exploration has commenced. Two diamond drill rigs are currently operating, with 3,000 metres of drilling planned to test approximately 2 kilometres of strike length identified by previous surface sampling. Concurrently, geological mapping and soil sampling is being conducted on the eastern plateau area in order to establish drill targets for the second phase of drilling.

On June 7, 2004, the company announced the proposed acquisition of Andina Minerals Inc. in exchange for 25 million common shares of Medoro, with closing subsequently extended to August 31, 2004. On the same date, the company announced a proposed restructuring of its Joint Venture with Sargold Resource Corporation whereby Sargold would acquire Medoro's entire interest in the Furtei operations in exchange for €6 million in cash, the assumption of €2 million in liabilities and C\$1 million in common shares of Sargold, with closing expected on or before August 31. Due diligence is continuing by all parties and further announcements are expected in the near future.

### **FOR FURTHER INFORMATION**

Peter Volk, Assistant Secretary  
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Financial Statements and Management's Discussion & Analysis follow.

# MEDORO RESOURCES LTD.

**Medoro Resources Ltd.**  
**Consolidated Balance Sheets**  
*Expressed in Canadian dollars*

|                                                   | June 30,<br>2004     | October 31,<br>2003 |
|---------------------------------------------------|----------------------|---------------------|
|                                                   | <i>Unaudited</i>     | <i>Audited</i>      |
| <b>Assets</b>                                     |                      |                     |
| Current assets                                    |                      |                     |
| Cash and equivalents                              | \$ 4,392,545         | \$ 3,221,339        |
| Accounts receivable                               | 2,087,749            | 9,468               |
| Promissory note                                   | -                    | 50,000              |
| Inventories                                       | 646,611              | -                   |
| Prepays and deposits                              | 463,021              | 1,973               |
|                                                   | 7,589,926            | 3,282,780           |
| Loan receivable (Note 2 d)                        | -                    | 662,925             |
| Mineral properties (Notes 2 f and 3)              | 24,207,498           | -                   |
| Property, plant and equipment                     | 5,588,745            | -                   |
| <b>Total assets</b>                               | <b>\$ 37,386,169</b> | <b>\$ 3,945,705</b> |
| <b>Liabilities and shareholders' equity</b>       |                      |                     |
| Current liabilities                               |                      |                     |
| Accounts payable and accruals                     | \$ 3,629,473         | \$ 97,762           |
| Long-term debt                                    | 9,347,144            | -                   |
| Other long-term liabilities                       | 4,942,709            | -                   |
|                                                   | 17,919,326           | 97,762              |
| Shareholders' equity                              |                      |                     |
| Share capital (Note 4)                            | 28,981,977           | 6,706,001           |
| Contributed surplus (Notes 2 c and f)             | 179,353              | -                   |
| Shares to be issued (Note 3)                      | -                    | 15,000              |
| Special warrants (Note 2 b)                       | -                    | 2,490,905           |
| Subscriptions received (Note 2 c)                 | -                    | 1,255,000           |
| Cumulative translation adjustment                 | (41,828)             | -                   |
| Deficit                                           | (9,652,659)          | (6,618,963)         |
|                                                   | 19,466,843           | 3,847,943           |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 37,386,169</b> | <b>\$ 3,945,705</b> |

These unaudited interim consolidated financial statements for the periods ended June 30, 2004 have not been reviewed by the Company's auditor.

*See accompanying notes to unaudited interim consolidated financial statements.*

# MEDORO RESOURCES LTD.

## Medoro Resources Ltd.

### Consolidated Statements of Operations and Deficit

*Expressed in Canadian dollars, unaudited*

|                                                            | Three Months<br>Ended<br>June 30,<br>2004 | Three Months<br>Ended<br>July 31,<br>2003 | Eight Months<br>Ended<br>June 30,<br>2004 | Nine Months<br>Ended<br>July 31,<br>2003 |
|------------------------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|------------------------------------------|
| Interest income                                            | \$ 13,062                                 | \$ (5,995)                                | \$ 80,219                                 | \$ 224                                   |
| General and administrative<br>expenses                     | (1,182,076)                               | (149,022)                                 | (2,297,859)                               | (197,718)                                |
| Exploration expenses                                       | (438,202)                                 | -                                         | (555,614)                                 | -                                        |
| Loss on disposal of capital<br>assets                      | -                                         | -                                         | -                                         | (1,844)                                  |
| Amortization                                               | (305,870)                                 | -                                         | (305,870)                                 | (97)                                     |
| Foreign exchange gains<br>(losses)                         | 33,254                                    | (1,029)                                   | 45,428                                    | (8,467)                                  |
| Net loss for the period                                    | (1,879,832)                               | (156,046)                                 | (3,033,696)                               | (207,902)                                |
| Deficit, beginning of period                               | (7,772,827)                               | (6,324,136)                               | (6,618,963)                               | (6,272,280)                              |
| Deficit, end of period                                     | \$ (9,652,659)                            | \$ (6,480,182)                            | \$ (9,652,659)                            | \$ (6,480,182)                           |
| Basic and diluted loss per<br>share                        | \$ (0.02)                                 | \$ (0.01)                                 | \$ (0.05)                                 | \$ (0.02)                                |
| Weighted average number<br>of common shares<br>outstanding | 84,670,649                                | 11,871,849                                | 57,264,086                                | 11,871,851                               |

*See accompanying notes to unaudited interim consolidated financial statements.*

# MEDORO RESOURCES LTD.

## Medoro Resources Ltd.

### Consolidated Statements of Cash Flows

Expressed in Canadian dollars, unaudited

|                                                                        | Three Months<br>Ended<br>June 30, 2004 | Three Months<br>Ended<br>July 31, 2003 | Eight Months<br>Ended<br>June 30, 2004 | Nine Months<br>Ended<br>July 31, 2003 |
|------------------------------------------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|---------------------------------------|
| <b>Cash provided by (used in):</b>                                     |                                        |                                        |                                        |                                       |
| <b>Operating activities</b>                                            |                                        |                                        |                                        |                                       |
| Net loss for the period                                                | \$ (1,879,832)                         | \$ (156,046)                           | \$ (3,033,696)                         | \$ (207,902)                          |
| Items not affecting cash:                                              |                                        |                                        |                                        |                                       |
| Loss on disposal of capital assets                                     | -                                      | -                                      | -                                      | 1,844                                 |
| Amortization                                                           | 305,870                                | -                                      | 305,870                                | 97                                    |
| Foreign exchange (gains) losses                                        | (33,254)                               | 1,029                                  | (45,428)                               | 8,467                                 |
| Changes in non-cash working capital items:                             |                                        |                                        |                                        |                                       |
| Accounts receivable                                                    | (58,729)                               | 123,735                                | (363,938)                              | 118,227                               |
| Promissory note                                                        | -                                      | -                                      | 50,000                                 | -                                     |
| Inventories                                                            | (6,069)                                | -                                      | (4,436)                                | -                                     |
| Prepays and deposits                                                   | (314,191)                              | 2,082                                  | (306,295)                              | -                                     |
| Accounts payable and accrued liabilities                               | (462,809)                              | (22,257)                               | (6,228)                                | (19,538)                              |
| Other long-term liabilities                                            | (458,331)                              | -                                      | 183,527                                | -                                     |
|                                                                        | (2,907,345)                            | (51,457)                               | (3,220,624)                            | (98,805)                              |
| <b>Investing activities</b>                                            |                                        |                                        |                                        |                                       |
| Acquisition of Sardinia Gold Mining SpA, net of acquired cash (Note 2) | (601,785)                              | -                                      | (2,104,279)                            | -                                     |
| Acquisition of mineral properties (Note 3)                             | (9,752))                               | -                                      | (1,008,042)                            | -                                     |
| Increase in property, plant and equipment, net                         | 4,327                                  | -                                      | (11,548)                               | -                                     |
|                                                                        | (607,210)                              | -                                      | (3,123,869)                            | -                                     |
| <b>Financing activities</b>                                            |                                        |                                        |                                        |                                       |
| Issuance of special warrants                                           | -                                      | -                                      | 295,000                                | -                                     |
| Issuance of subscription receipts                                      | -                                      | -                                      | 8,015,000                              | -                                     |
| Issuance costs                                                         | -                                      | -                                      | (781,515)                              | -                                     |
|                                                                        | -                                      | -                                      | 7,528,485                              | -                                     |
| Foreign exchange impact on cash                                        | 14,632                                 | -                                      | (12,786)                               | -                                     |
| Net increase (decrease) in cash and equivalents                        | (3,499,923)                            | (51,457)                               | 1,171,206                              | (98,805)                              |
| Cash and equivalents, beginning of period                              | 7,892,468                              | 193,131                                | 3,221,339                              | 240,479                               |
| Cash and equivalents, end of period                                    | \$ 4,392,545                           | \$ 141,674                             | \$ 4,392,545                           | \$ 141,674                            |

See accompanying notes to unaudited interim consolidated financial statements.

# MEDORO RESOURCES LTD.

## Medoro Resources Ltd.

### Notes to Unaudited Interim Consolidated Financial Statements

For the Three and Eight Months Periods Ended June 30, 2004 and the Three and Nine Month Periods Ended July 31, 2003

*All Amounts Expressed in Canadian Dollars*

*Unaudited*

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#### 1. Basis of Presentation

The interim consolidated financial statements include the accounts of the amalgamated entity resulting from the Business Combination as described in Note 2 (the "Company"), Full Riches Investments Ltd. ("FRI") and its wholly owned subsidiaries, principally Gold Mines of Sardinia Pty. Ltd. ("GMS Australia"), Sardinia Gold Mining SpA ("Sardinia Gold") and Miniere di Pestarena srl. Pursuant to the Business Combination, the amalgamated company, formed on March 2, 2004, has continued under the name of Medoro Resources Ltd.

The unaudited interim period financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP"). All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with GAAP has been condensed or omitted. These unaudited interim period statements should be read together with the audited financial statements and the accompanying notes included in the FRI's latest annual report. In the opinion of the Company, its unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

#### 2. Acquisition of Sardinia Gold Mining SpA

##### (a) The business combination

On October 3, 2003, FRI entered into an arm's length agreement with Gold Mines of Sardinia plc, a public company formed under the laws of England and Wales ("GMS England") pursuant to which FRI and GMS England agreed to complete a business combination (the "Business Combination"). GMS England is a gold exploration and development company with interests on the Italian island of Sardinia through its operating subsidiary Sardinia Gold, a joint venture with the Sardinian regional Government, in which GMS England holds a 90% interest through GMS Australia and the Sardinian regional Government the remaining 10%.

FRI received approval in February 2004 from the TSX Venture Exchange, including the amalgamation of FRI with GMS England's wholly owned subsidiary, Medoro Resources Ltd. ("GMS Canada"), incorporated under the laws of the Yukon, to create the Company to continue under the name of Medoro Resources Ltd. The amalgamation was completed February 24, 2004. GMS England transferred all of the issued and outstanding shares in the capital of GMS Australia from GMS England to GMS Canada in consideration for an aggregate of 38,726,261 shares of GMS Canada. Pursuant to the terms of the amalgamation:

- (i) GMS England, as the sole shareholder of GMS Canada, received common shares of the Company, representing approximately 50% of the Company's issued and

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- outstanding shares as of the date of the completion of the amalgamation. In conjunction with the completion of the Business Combination, GMS England distributed the shares it received of the Company to its shareholders; and
- (ii) The shareholders of FRI received common shares of the Company representing, in aggregate, approximately 50% of the Company's issued and outstanding shares as of the date of the amalgamation.

In identifying the acquirer in this Business Combination, consideration was given to the proposed relative composition of the Board of Directors and Management of the Company. FRI was identified as the acquirer.

(b) Initial private placement

Completion of the Business Combination was subject to the successful completion of \$10,000,000 (gross) in equity financings by FRI (the "Private Placements"). The use of proceeds of the financings is for future exploration and development expenses and general working capital. In connection with the Business Combination, FRI announced a non-brokered private placement of up to 40,500,000 special warrants (the "Special Warrants") at a price of \$0.10 per Special Warrant for gross proceeds of \$4,050,000 (the "Initial Private Placement"). On October 27, 2003, FRI completed the issue and sale of 25,000,000 Special Warrants for aggregate proceeds of \$2,500,000. FRI completed the issue and sale of the balance of the \$1,550,000 on December 11, 2003. The Special Warrants were subsequently exercised for common shares prior to the completion of the amalgamation and each FRI common share received on such exercise was exchanged for 0.5 common shares of the Company pursuant to the amalgamation. Issuance costs related to the transaction amounted to \$43,798.

(c) Agency Private Placement

In connection with the satisfaction of the condition to complete the balance of the Private Placements, FRI retained an agent ("the Agent") in connection with the private placement of 22,900,000 subscription receipts (the "Subscription Receipts") at a price of \$0.35 per Subscription Receipt for aggregate proceeds of \$8,015,000 (the "Agency Private Placement"). Each Subscription Receipt was exercisable, for no additional consideration, into one FRI common share. The private placement was completed on January 16, 2004. The Subscription Receipts were exercised for FRI common shares prior to the amalgamation and each FRI common share received on the exercise was subsequently exchanged for 0.5 common shares of the Company pursuant to the amalgamation.

In connection with the Agency Private Placement, FRI paid the Agent a commission of \$480,900 equal to 6% of the aggregate proceeds from the Agency Private Placement and issued 1,374,000 Agent's Warrants. Each Agent's Warrant entitles the holder to acquire one FRI common share at a price of \$0.35 until January 15, 2006. In addition, each Agent's Warrant was exchanged for 0.5 replacement warrants of the Company at \$0.70 per warrant pursuant to the amalgamation. The fair value of the Agent's Warrants of \$117,950, included in contributed surplus, was calculated using the Black-Scholes pricing model assuming a risk-free interest rate of 2.87%, volatility of 40% and no dividend payments.

Total issuance costs related to the Subscription Receipts were \$864,762 including the commission, warrants and advisory and legal fees.

(d) Interim financing of GMS England and Sardinia Gold

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In conjunction with the Business Combination, FRI arranged interim financing (the "Interim Financing") for GMS England consisting of US \$1,500,000 advanced by FRI in two tranches pursuant to a loan agreement between FRI and GMS England dated October 3, 2003 (the "GMS Loan Agreement"). The loans bore interest at a rate of 10% per annum from the date of issue and matured following the completion of the Business Combination such that the obligations of GMS England thereunder expired on closing of the Business Combination. The loans were direct obligations of GMS England, secured by a charge over the shares of GMS Australia. All funds advanced under the Interim Financing were paid directly to Sardinia Gold. In February 2004, prior to the Business Combination, FRI advanced ("SGM Advances") additional funds of \$211,968 directly to Sardinia Gold for working capital purposes. Pursuant to the Business Combination, the obligations of GMS England under the Interim Financing and SGM Advances were acquired by the Company.

(e) Joint venture

Pursuant to the terms of the Business Combination, the Company entered into a binding letter of intent with a wholly-owned subsidiary of Gold Fields Limited ("Gold Fields"). Under the letter of intent, the Company will grant Gold Fields an exclusive option over all of its properties in Sardinia not currently under option to Bolivar Gold Corp. or Sargold Resource Corporation. Gold Fields will have a period of 12 months to perform preliminary evaluations on the properties, during which period Gold Fields will have the right to acquire up to a 70% interest in specific properties, with 50% to be earned by sole-funding all expenditures through to completion of a bankable feasibility study. Upon completion of a bankable feasibility study, Gold Fields and Sardinia Gold will each be responsible for funding further exploration, development and other work on the property in accordance with their respective percentage interests.

(f) Other matters

- (i) In consideration for their services, in introducing the parties, assistance with the Italian authorities, due diligence, assisting with the financing and continued services in completing the Business Combination, a total of 10,000,000 FRI common shares were issued, after receiving TSX Venture Exchange approval, to Next com Italia srl, Jose Francisco Arata and Endeavour Financial. Pursuant to the amalgamation, each of these common shares were exchanged for 0.5 common shares of the Company.
- (ii) FRI retained McFarlane Gordon Inc. to act as sponsor (the "Sponsor") in connection with the Business Combination in accordance with the policies of the TSX Venture Exchange. As consideration for the services rendered by the Sponsor, FRI agreed to issue 250,000 FRI common shares which, pursuant to the amalgamation, were subsequently exchanged for 0.5 common shares of the Company.
- (iii) Post-amalgamation, the Company issued:
  - 1,182,888 options to holders of GMS England options;
  - 5,793,918 warrants to holders of GMS England warrants as consideration for the assignment to, and assumption by, the Company of certain GMS England Agreements; and

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- 319,857 common shares to Williams de Broe in consideration of services performed in connection with the amalgamation.
- (iv) On February 24, 2004, the Business Combination was completed and shares in the Company began trading on March 2, 2004. The acquisition of 100% of GMS Australia has been accounted for using the purchase method and the results of operations have been included in the earnings of the Company from the date of amalgamation.

The preliminary allocation of the purchase price is summarized below:

|                                                                                                                      |              |
|----------------------------------------------------------------------------------------------------------------------|--------------|
| 44,171,118 shares issued at \$0.20 per share (Notes 2 a, 2 f (i),<br>2 f (ii) and 2 f (iii))                         | \$ 8,834,223 |
| Fair value of GMS England options and warrants exchanged for<br>options and warrants of the Company (Note 2 f (iii)) | 61,403       |
| Acquisition costs                                                                                                    | 1,450,000    |

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|                     |               |
|---------------------|---------------|
| Total consideration | \$ 10,345,626 |
|---------------------|---------------|

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Net assets acquired:

|                                              |               |
|----------------------------------------------|---------------|
| Cash                                         | \$ 467,080    |
| Accounts receivable                          | 1,751,366     |
| Inventories                                  | 655,756       |
| Prepays and deposits                         | 158,821       |
| Mineral interests                            | 21,017,046    |
| Property, plant and equipment                | 6,197,089     |
| Accounts payable and accrued liabilities     | (3,001,865)   |
| Interim Financing and SGM Advance (Note 2 d) | (2,203,968)   |
| Long-term debt                               | (9,544,655)   |
| Other long-term liabilities                  | (5,151,044)   |
|                                              | <hr/>         |
|                                              | \$ 10,345,626 |

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The fair value of the options and warrants was determined using the Black-Scholes option pricing model assuming no dividends were paid, a volatility of the Company's shares of 40%, an expected life of options and warrants ranging between 0.5 years and 5 years and annual risk-free interest rate ranging between 2.15% and 3.48%.

As at June 30, 2004, \$405,313 of the acquisition costs was included in accounts payable and accrued liabilities.

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## 3. Acquisition of Miniere di Pestarena srl

On March 23, 2004, the Company acquired 100% of the share capital in Miniere di Pestarena srl, an Italian company with exploration rights covering the Pestarena and Lavanchetto concessions located in the Piedmont Region in Northern Italy for total consideration amounting to \$3,208,042 represented by a cash payment of \$979,835 (600,000 Euros), acquisition costs of \$28,207 and the issuance of 4,000,000 common shares of the Company on May 5, 2004. These shares are subject to a hold period expiring on September 4, 2004, during which they cannot be traded. The acquisition has been accounted for using the purchase method and the purchase price has been allocated to mineral properties.

## 4. Capital Stock

### (a) Common shares

*Authorized* - Unlimited common shares without par value

*Issued and outstanding* -

|                                                                                             | Number of<br>shares | Amount        |
|---------------------------------------------------------------------------------------------|---------------------|---------------|
| Opening balance as at October 31, 2003                                                      | 11,871,849          | \$ 6,706,001  |
| Issued prior to amalgamation:                                                               |                     |               |
| As consideration for bridge facility (see below)                                            | 150,000             | 15,000        |
| Upon exercise of Special Warrants (Note 2 b)                                                | 40,500,000          | 4,006,202     |
| Upon exercise of Subscription Rights (Note 2 c)                                             | 22,900,000          | 7,150,238     |
| As consideration for services in connection with the<br>Business Combination (Note 2 f (i)) | 10,000,000          | 1,000,000     |
| As consideration for services rendered by the Sponsor<br>(Note 2 f (ii))                    | 250,000             | 25,000        |
| Balance as at February 24, 2004, prior to amalgamation                                      | 85,671,849          | \$ 18,902,441 |

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|                                                                                                                                                                     | Number of<br>shares | Amount        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------|
| Opening balance as at February 24, 2004, post-<br>amalgamation, after giving effect to exchange of 0.5<br>common shares of the Company for each FRI<br>common share | 42,835,925          | \$ 18,902,441 |
| Issued to GMS England pursuant to the Business<br>Combination (Note 2 a)                                                                                            | 38,726,261          | 7,745,252     |
| Issued as consideration for services in connection with<br>the amalgamation (Note 2 f (iii))                                                                        | 319,857             | 63,971        |
| Issued in settlement of accrued liabilities (see below)                                                                                                             | 140,624             | 70,313        |
| Issued to acquire Miniere di Pestarena srl (Note 3)                                                                                                                 | 4,000,000           | 2,200,000     |
| Closing balance as at June 30, 2004                                                                                                                                 | 86,022,667          | \$ 28,981,977 |

FRI issued 150,000 common shares to Endeavour Mining Capital Corp. as part of the consideration for providing it with a bridge facility of US \$500,000 bearing interest at a rate of 10% per annum that matured on October 31, 2003.

On May 5, 2004, pursuant to the approval of the TSX Venture Exchange, the Company issued an aggregate of 140,624 common shares in final payment of \$70,313 of accrued liabilities owed to four consultants to the Company.

(b) Escrow shares

As at June 30, 2004, there were 3,426,000 common shares of the Company held in escrow.

(c) Stock options

As at June 30, 2004, there are 2,825,000 stock options of the Company outstanding exercisable at \$0.70 per common share, including 325,000 stock options of the Company granted in February 2004 to certain officers and consultants of FRI. In addition, subsequent to the amalgamation, 1,182,888 stock options of the Company were issued to holders of GMS England options expiring through mid-2006 at exercise prices ranging from \$1.45 to \$3.25 per common share.

(d) Stock warrants

As at June 30, 2004, there were 5,793,918 warrants (Note 2 f (iii)) outstanding with expiry dates ranging up until 2008 and exercise prices ranging from \$0.70 to \$3.30 per common share. In addition, there were 687,000 Agent's Warrants (Note 2 c) outstanding exercisable at \$0.70 per common share expiring on January 15, 2006.

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## 5. Related Party Transactions

During the eight months period ended June 30, 2004, the Company paid the following amounts to related parties:

- (a) Consulting fees of \$23,888 and rent of \$4,000 (2003 – Nil) were paid to a company in which a director of the Company is an officer.
- (b) Consulting fees of \$196,289 were paid (2003 – Nil) to Next com Italia srl, a company in which the President of Sardinia Gold is managing director.

## 6. Segmented Information

The Company operates in one principal business segment, gold exploration and development, principally conducted through its operating subsidiaries located in Italy.

# MEDORO RESOURCES LTD.

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## **Management's Discussion and Analysis of Results of Operation and Financial Condition for the three and eight-month periods ended June 30, 2004**

*This Management's Discussion and Analysis should be read in conjunction with the company's unaudited consolidated financial statements for the periods ended June 30, 2004 and related notes thereto which have been prepared in accordance with Canadian generally accepted accounting principles. In addition, the following should be read in conjunction with the 2003 audited consolidated financial statements. All figures are expressed in Canadian dollars unless otherwise noted.*

*This Management's Discussion and Analysis has been prepared with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. This Management's Discussion and Analysis has been prepared as of August 13, 2004.*

### *Overview*

Medoro Resources Ltd. was created in February 2004 as a result of the business combination between Full Riches Investments Limited and GMS Canada, whose principal assets were the exploration and formerly-producing gold assets belonging to Gold Mines of Sardinia (GMS).

The original focus of GMS was the exploration, development and production of gold on the island of Sardegna in Italy. GMS was successful in this regard, having produced, in total, 130,000 ounces of gold during the period 1997 – 2003. This was not a particularly prosperous period for gold producers, large and small, as the price of gold was hovering around 20-year lows. As a result, GMS' ability to explore for and develop additional gold resources was constrained by available cash flow. Having exhausted all readily-available sources of ore in February 2003, the company suspended operations and pursued alternatives that would enable GMS shareholders to realize some value for its extensive portfolio of exploration concessions.

The Full Riches transaction achieved this objective. In addition to providing badly needed cash resources, a key requirement of the transaction was that Full Riches secure the participation of a senior partner who would take on the responsibility of funding an aggressive program of exploration of GMS' concessions. This commitment was fulfilled by the participation of a wholly-owned subsidiary of Gold Fields Limited, who have a 12-month exclusive right to explore any GMS concession not previously optioned to another party and can earn a 70% interest in any such property by funding all costs through to the completion of a bankable feasibility study.

In addition to the Gold Fields Joint Venture, GMS had previously negotiated two exploration joint ventures, one with Sargold Resource Corporation for exploration in the Furtei area and one with Bolivar Gold Corp. for the exploration of the Monte Ollasteddu concession. Bolivar Gold Corp. can earn a 70% interest in the property by funding all expenditures through to the completion of a bankable feasibility study. A wholly-owned subsidiary of Gold Fields is currently earning a 60% interest in the property by funding all of Bolivar Gold's obligations. At Furtei, Sargold Resource Corporation is earning a 45% interest in the concessions by funding €15 million over an 8 year period. As announced on June 7, 2004, the parties have agreed to a restructuring of this agreement whereby Sargold would acquire Medoro's entire interest in the Furtei operations in exchange for

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€6 million in cash, the assumption of €2 million in liabilities and C\$1 million in common shares of Sargold, with closing expected on or before August 31, 2004.

Medoro Resources' vision is to create the pre-eminent European-focused gold exploration company with a diverse portfolio of gold prospects throughout the region. To achieve this objective, the company intends to leverage off of its existing land position in Sardegna. Given the company's current financial and technical resources, Medoro's strategy will initially be to rely extensively on joint ventures with highly-qualified, well-financed partners to fund exploration of both existing concessions as well as newly-acquired opportunities elsewhere in Italy and throughout Europe.

In order to achieve this strategy, the company must reduce the negative cash flow associated with the formerly producing GMS assets to a point where Medoro is organized and operated on a largely 'cash neutral' basis, with all exploration funding provided by joint venture partners. Failure to achieve this will limit the company's ability to acquire new properties and may ultimately require the sale of some assets or additional equity financing, if available. In the longer term, this strategy is only viable if economic quantities of gold are discovered and developed on at least one of the company's properties and thereby generate cash flow operations sufficient to cover all corporate costs on an ongoing basis. On June 7, 2004, the company announced the proposed acquisition of Andina Minerals Inc. in exchange for 25 million common shares of Medoro, with closing subsequently extended to August 31, 2004. Given the regulatory delays experienced in carrying out its stated strategy in Sardegna, the company believes that it is appropriate to diversify its geographical focus and that the Andina acquisition would achieve this objective as well as significantly enhance the management team.

## *Results of Operations*

With the recently completed business combination, comparisons between current costs and prior periods are not meaningful. However, the following comments identify various issues related to the results of operations for the periods ending June 30, 2004 and the company's financial condition as of that date.

With mining operations in Sardegna suspended as of February 2003, the only tangible activity in the group was general and administrative costs related to the business combination as well as ongoing administrative costs, primarily in Italy and Canada. These costs amounted to \$2.3 million in the eight months ended June 30, 2004, with \$1.2 million occurring in the most recent three months. In addition, a total of \$438,000 was expended in the past three months on exploration that is not recoverable from joint venture partners. After adjusting for non-cash items and changes in non-cash working capital, operating activities consumed \$2.9 million in the three months ended June 30, 2004 and a further \$0.3 million in the preceding five months. Investing activities in the three and eight-month periods ended June 30, 2004 consist largely of the acquisition of the Pestarena property in northwestern Italy at a cash cost of \$1.0 million plus the issuance of 4 million shares. During the eight months ended June 30, 2004 the company raised net proceeds of \$7.5 million through the sale of 22.9 million subscription receipts which were exercisable, for no additional consideration, into common shares of Full Riches which, pursuant to the business combination, were exchanged for 0.5 common shares of Medoro Resources.

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The following tables provide selected financial information for the three most recent years and eight most recent quarters. All results from business activities preceding the GMS acquisition have been treated as discontinued operations.

| Three most recent years                  | Oct. 31<br>2003 | Oct. 31<br>2002 | Oct. 31<br>2001 |
|------------------------------------------|-----------------|-----------------|-----------------|
| a) Revenues                              | \$ 0            | \$ 798,695      | \$ 979,116      |
| b) Income before discontinued operations | 0               | 0               | 0               |
| - per share                              | 0.00            | 0.00            | 0.00            |
| c) Net income                            | (346,683)       | (507,972)       | (42,559)        |
| - per share                              | (0.03)          | (0.04)          | (0.00)          |
| d) Total assets                          | 3,945,705       | 448,219         | 258,515         |
| e) Long term debt                        | 0               | 0               | 0               |
| f) Dividends per share                   | 0.00            | 0.00            | 0.00            |

| Summary of Quarterly Results             | Jun. 30<br>2004 | Mar. 31<br>2004* | Jan. 31<br>2004 | Oct. 31<br>2003 |
|------------------------------------------|-----------------|------------------|-----------------|-----------------|
| a) Revenues                              | \$ 0            | \$ 0             | \$ 0            | \$ 0            |
| b) Income before discontinued operations | (1,879,832)     | (1,064,016)      | 0               | 0               |
| - per share                              | (0.02)          | (0.02)           | 0.00            | 0.00            |
| c) Net income                            | (1,879,832)     | (1,064,016)      | (89,848)        | (138,781)       |
| - per share                              | (0.02)          | (0.02)           | (0.01)          | (0.01)          |

\* two-month period

| Summary of Quarterly Results             | Jul. 31<br>2003 | Apr. 30<br>2003 | Jan. 31<br>2003 | Oct. 31<br>2002 |
|------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| a) Revenues                              | \$ 0            | \$ 0            | \$ 0            | \$ 0            |
| b) Income before discontinued operations | 0               | 0               | 0               | 0               |
| - per share                              | 0.00            | 0.00            | 0.00            | 0.00            |
| c) Net income                            | (156,046)       | (26,289)        | (25,567)        | (613,543)       |
| - per share                              | (0.01)          | (0.00)          | (0.00)          | (0.05)          |

## *Liquidity and Financial Resources*

At June 30, 2004, Medoro Resources had \$4.4 million in cash and working capital of \$4.0 million. In order to achieve its objectives, the company has initiated a thorough review of all activities in Sardegna with a view to reducing ongoing costs not recoverable from exploration partners to a minimal level. At the same time, there are approximately \$3.6 million in trade payables, many of which are greater than 90 days overdue, which need to be settled in the coming months.

In addition to reducing ongoing costs, management is actively looking at a number of possible corporate arrangements which could help ensure that shareholders ultimately realize the inherent value in the company's exciting exploration portfolio. In the absence of success in these initiatives, some combination of asset sales or additional financing would be required to ensure the company's long-term survival.

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## *Disclosure of Outstanding Share Data*

Medoro Resources' outstanding voting or equity securities, or securities convertible into, or exercisable or exchangeable for, voting or equity securities of the company, are as follows:

| Securities                                                                                                        | Jun 30, 2004 | Mar 31, 2004 | Oct 31, 2003 |
|-------------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| Common shares                                                                                                     | 86,022,667   | 81,882,043   | 11,871,849   |
| Warrants, with expiry dates ranging up until 2008 and exercise prices ranging from \$0.70 to \$3.30               | 5,793,918    | 5,793,918    | Nil          |
| Agent's warrants, exercisable until January 15, 2006 at \$0.70                                                    | 687,000      | 687,000      | Nil          |
| Stock options, with expiry dates ranging up until February 2009 and exercise prices ranging from \$0.70 to \$3.49 | 4,007,888    | 4,007,888    | Nil          |

## *Transactions with Related Parties*

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. During the eight month period ended June 30, 2004, Medoro Resources paid the following amounts to related parties: (i) consulting fees of \$23,888 and rent of \$4,000 (2003 – Nil) to a company in which a director of the Company is an officer; and (ii) consulting fees of \$196,289 were paid (2003 – Nil) to Next com Italia srl, a company in which the President of Sardinia Gold is managing director.

## *Off-Balance Sheet Arrangements*

Medoro Resources has no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the company including, without limitation, such considerations as liquidity and capital resources.

## *Changes in Accounting Policies Including Initial Adoption*

Medoro Resources' unaudited interim financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements.

Additional information relating to the company is available on SEDAR at [www.sedar.com](http://www.sedar.com).