

Gold Mining in Honduras

Background Information

Honduras, the second-largest country in Central America, is mountainous and geologically diverse. Although a traditional industry, mining is significantly underdeveloped and accounts for just 2% of GNP. There are hopes that the political stability enjoyed since 1978, will encourage mineral exploration and development; the country is thought to host numerous precious and base metal deposits including gold, silver, copper, lead, zinc, iron ore, and antimony.

In 2003, Honduras exported 975,000 ounces of gold, 840,000 ounces of silver, 80 million pounds of zinc and 13 million tonnes of lead, the government mining fund DEFOMIN said.

Potential Conflicts / Issues / Miners Rights

There are a number of issues raised regarding conflict with mining companies and local communities. These issues can be seen in the attached report "The Price of Gold" however the following statement does concern Glamis Gold.

*Statement to Glamis Gold Shareholders from Honduras and Guatemala
Wednesday May 3, 2006 10:07 AM*

This statement was read at Glamis Gold's Annual General Meeting. It was written by community representatives from regions of Honduras and Guatemala affected by the company's mining operations. They were in Canada on an educational speaking tour with Rights Action.

Glamis Gold Ltd. Investors and Shareholders:

We, as inhabitants communities directly affected by Glamis Gold's mining activities in Honduras and Guatemala, write this letter to you to inform you of the grave consequences your investments are having. Glamis Gold arrived in our Communities promising development and progress. However, the experiences of our communities clearly demonstrate that the mining activity does not bring development neither to the local population, nor to the country.

Multinational companies such as Glamis Gold always state that they are respecting the laws of the countries in which they operate, but in Honduras and Guatemala they are operating within a corrupt system, profiting from systematic impunity and a lack of real democracy. Communities were never consulted and when we have organized our own consultation processes according to valid legal instruments and have expressed our rejection of mining activities, the government has responded with repression and militarization, defending the imposed mining projects.

In the Siria Valley in Honduras, the negative impacts of the San Martin mine are extensive. Environmental destruction, implicit in open pit mining, continues to damage the ecosystems in the region - forests, water sources, flora and fauna. Cyanide and heavy metal contamination of several water

sources in the area has been confirmed, even by studies carried out by governmental institutions. There are communities that have drunk water with high concentrations of arsenic, mercury and lead for years, while other communities must travel to another municipality in order to obtain enough clean water for domestic use.

The water shortage caused by the enormous quantity of this vital resource required for the San Martin mine's operations has destroyed the Siria Valley's local economy, traditionally based on agriculture and cattle. In turn, this has caused a wave of immigration to the United States, separating and dividing families and community life.

Since the mine begun its operations, the local population has been living a health crisis in the region. Independent medical brigades have been documenting the ongoing rise in dermatological, respiratory, ophthalmologic, gastro-intestinal and other diseases. A significant percentage of the children and the adult population of the communities closest to the mine suffer from chronic illnesses, with no adequate diagnostic or treatment.

In response to this very real situation that we face every day in our communities, we have attempted to make our voices heard by every means possible. As all doors have been closed in our faces, as affected communities we have been forced to resort to community-initiated decision-making processes and direct actions, such as those that have been taking place continually over the past two weeks in the Siria Valley in Honduras. The recent news that Honduran Glamis Gold subsidiary Entre Mares' property in the country has been mortgaged for a 30 million dollar loan from a bank in the Bahamas raises once again the threat that the company may simply declare bankruptcy in order to abandon the San Martin mine, without any mitigation or reparations and without fulfilling basic commitments, such as legally registering the land and houses of the community of San José de Palo Ralo, coerced into relocating in order to make way for the mine.

In the Siria Valley in Honduras, as affected communities and as the Siria Valley Regional Environmental Committee, we are demanding the immediate closure of the San Martin mine, along with integral reparations and mitigation. Even as you meet as shareholders, actions, investigations and media coverage continue in Honduras, concerning the devastating impacts of your investments.

It is clearly impossible to explain the consequences of mining activity in the Siria Valley and San Marcos and our positions and demands regarding the San Martin and Marlin mines in such a short time and space. We feel that it is your responsibility as shareholders to inform yourselves of the devastating impacts of your investments in our communities and to take an appropriate course of action.

Carlos Amador, El Porvenir, Francisco Morazan, Honduras
Juan Tema, Sipakapa, San Marcos, Guatemala

Mining Legislation

It would seem that the most up to date mining law was in 2001. This law has allegedly given a lot of authority to the Mining Directorate which is totally independent of the Ministry of Environment.

Statement given by the country's new president Manuel Zelaya

Honduras will not grant new permits for open-pit mines without stricter environmental laws and clearer social benefits, the country's new president said on Friday.

"I don't want to see more permits for open-pit mines in Honduras," President Manuel Zelaya said in his inaugural address. "Not one more until we have the guarantees needed for the conservation and preservation of our natural wealth."

Four metals mines operate in Honduras, two of them Canadian, one Spanish and one Honduran.

Three are open-pit operations that have seen strong opposition from social and environmental groups who see them as eyesores and potential sources of pollution from cyanide used to separate gold ore.

"They can say we are sleeping on a mountain of gold. Well, we are going to be sleeping there ... but this gold has to serve the Honduran people, and it has to serve the poor of Honduras to develop our nation," Zelaya said.

Gabino Carvajal, president of the National Metal Mining Association said various sectors were supporting a bill putting stricter conditions on new mining operations.

Canadian-owned Glamis Gold is among foreign mining companies operating in Honduras, where it runs the San Martin Mine.

Companies Registering an interest in Honduras / Undertaking Operations in Honduras

Currently 4 mines in operation, two Canadian, one Spanish and one Honduran.

The following companies are conducting exploration:

- The Canadian Maverick Mining Company
- Gold-Ore Resources Ltd - In August 2004 this Vancouver-based junior gold explorer, announced the completion of its diamond drilling programme on the Guayabillas silver/gold zone in Yuscaran District. Yuscaran is subject to the terms of an agreement with Breakwater Resources and the United Nations, whereby Gold-Ore can earn a 100% interest by expending US\$1.5 million in exploration and development over the next three years. A total of 2,700 m were drilled in 15 holes. The drilling was designed to test areas between existing intersections in the main Guayabillas structure, to test for extensions of

the mineralisation along the structure, and to test other targets on the property. The four drill on the Guayabillas all intersected the interpreted structure and returned good silver and gold values. The 45 km² property hosts a number of epithermal mineralised vein swarms, many of which have seen historic production utilising underground mining techniques. The veins crop out over an area of 4 km by 2 km and Gold-Ore believes that Yuscaran is the most promising undeveloped gold-silver property in Honduras.

- First Point Minerals Corp, a Canadian precious and base metal exploration company focused on the Americas, signed an exploration and property option agreement with BHP Billiton to explore porphyry copper-gold deposits in Honduras, Nicaragua and El Salvador. This includes its 100% owned Cacamuyá gold-silver and Cedros silver-zinc-lead properties, both in Honduras. At the former, five known zones of epithermal veins occur within 6 km² of intense alteration. Best drill intersections include 6.2 m at 104.7 g/t Au, 1.5 m at 17.8 g/t, and 4.0 m at 19.1 g/t. A reverse circulation drilling programme of 20 holes totalling 2,000 m will test targets in the D4/D5 and Cerro Chachagua areas. The D4/D5 target is a broad area of strongly-altered volcanics and abundant epithermal quartz veins and stockworks in both float and outcrop that carry significant gold values. The target area exhibits potential for bulk tonnage mineralisation that could contain centres of high-grade veins and stockwork zones and more focused bonanza veins at depth. The Cerro Chachagua target is a relatively deep-seated, high-grade epithermal vein mineralisation immediately south of the D4/D5 target and approximately 2 km east of Filo Lapa.
- Maya Gold Ltd is conducting exploration on a copper-gold porphyry deposit. Early reconnaissance identified two significant targets: 'Los Lirios' and Rio Rico, a potential epithermal precious metals deposit