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To the President
Syndicated Gold Depository S.A.

Dear President,

Syndicated Gold Depository S.A. (SGD), a corporation governed by the laws of the Country of Bahamas, has retained my services to provide a narrative (REPORT) concerning certain factual aspects of SGD's relationship as a lender of funds to MERENDON Mining Corporation Ltd. (MERENDON), a corporation governed by the laws of the Province of Alberta Canada, as the borrower of said funds.

SGD desires to establish that the amount of funds lent to MERENDON are secured and collateralized by the assets of MERENDON sufficient in dollar amount to cover same. I was asked to provide a REPORT of the facts as presented to me with the purpose of reporting on said security and collateralization.

Additionally, SGD desires to establish that MERENDON is an operating company having actual operations with the requisite assets and personnel within the context of MERENDON's industry which is the exploration, development and mining of gold ores. I was asked to provide a REPORT of the facts as presented to me with the purpose of reporting on said operations.

This REPORT is a compilation of facts as they were presented to me by MERENDON pursuant to my visit. This report is not an audit per se within the context of accounting procedures and no third party verifications were attempted to verify the facts presented. This REPORT is rather a recitation of events, documents, facts and observations as would be made by an interested person in the nature and scope of SGD's lending relationship with MERENDON for the two purposes stated above, that is the collateralization of funds lent and the actuality of business operations.

The REPORT has three sections to it. The first is a summary of my work and professional experiences, the second section is a summary of the facts as presented by MERENDON and the third section is my opinion as to the events, documents, facts and observations as presented to me by MERENDON and opines on the collateralization of funds lent and business operations in question.

GENERAL DESCRIPTION OF CERTAIN MINING TERMS:

There are certain mining terms used in this REPORT and the reader should be familiar with their meaning.

An *alluvial deposit* is an ancient river-washed rock and gravel bar that may be thousands of feet from the nearest stream, creek, or river. Alluvial (or bench) deposits contain untapped potential for finding gold because such areas have never been worked before.

Placer Mining is the most common form of mining and involves mining gold that has been washed away from its mother lode (or source) and deposited in small cracks, holes, or sand bars in the mainstream of a river.

A *hard rock mine* is a tunnel that is dug into solid rock for the sole purpose of finding valuable or precious rocks, minerals, or metals. Gold originates deep within the earth in places called Pockets. The Pockets are filled with gold, heavy ore, and quartz.

Reserves: that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves are customarily stated in terms of ore when dealing with metalliferous minerals.

There are three categories of reserves:

Proven ore (Delineated) – material for which tonnage and grade are computed from dimensions revealed in outcrops, trenches, underground workings or drill holes; grade is computed from the results of adequate sampling; and the sites for inspection, sampling and measurement are so spaced and the geological character so well-defined that size, shape and mineral content are established.

Probable ore – material for which tonnage and grade are computed partly from specific measurements, samples or production data and partly from projection for a reasonable distance on geological evidence; and for which the sites available for inspection, measurement and sampling are too widely or otherwise inappropriately spaced to outline the material completely or to establish its grade throughout.

Possible ore – material for which quantitative estimates are based largely on broad knowledge of the geological characteristics of the deposit and for which there are few samples or measurements.

SECTION ONE: MARTIN WERNER
SUMMARY OF WORK AND PROFESSIONAL EXPERIENCES

PROFILE: Senior Corporate Executive, Accountant and Attorney with professional knowledge and experience in areas of accounting, law and business.

CORPORATE & ENTREPRENEURIAL EXPERIENCE: Vice President and in house counsel of a manufacturer, importer, exporter of material handling equipment selling to fortune 500 companies such as Wal-Mart, Home Depot etc. Profit and loss responsibility.

Corporate Attorney and Accountant for manufacturer and worldwide exporter of transportation equipment. Responsible for coordination and preparation of legal, accounting, sales and business information of various departments for compliance and strategic growth purposes. Entrepreneurial skills include P&L responsibility, investor relations, cost accounting pricing structuring, Merger & Acquisition and deal making accomplishments.

Principal of Seafood processing and trading company. Initiated and developed start up. Responsible for all aspects of financing, production and marketing of products, capitalization of assets. Areas of operations included United States, Jamaica, Honduras, Dominican Republic and the French West Indies.

Mortgage Banker Responsible for obtaining real estate financing for land acquisition, construction, end loans. Coordinate and close loans.

LEGAL EXPERIENCE: Legal experience includes but is not limited to all aspects of client responsibility dealing with corporate law, real estate law, tax law and civil litigation.

ACCOUNTING EXPERIENCE: Accounting experience includes but is not limited to setting up and implementing accounting systems from data entry through trial balance and general ledger preparation, prepared state and federal tax returns, financial statements in accordance with G.A.A.P. and performed audits. Clients included corporation, partnerships, trusts and estates. Work included cost accounting procedures to develop break even point analysis, budget and forecasting, profit modeling for products and services.

EDUCATION: NOVA SOUTHEASTERN UNIVERSITY, SHEPARD BROAD LAW CENTER, FL. LAUDERALE, FL. Juris Doctor, May 1984.

UNIVERSITY OF FLORIDA, GAINESVILLE, FL. Bachelor of Science Degree in Accounting, May 1978.

MEMBERSHIPS: ADMITTED TO: FLORIDA BAR, 1985
FEDERAL BAR, SOUTHERN DISTRICT OF FLORIDA, 2002.
FEDERAL TAX COURT, 2005

SECTION TWO: EVENTS, DOCUMENTS, FACTS AND OBSERVATIONS

DESCRIPTION OF SITE VISITS, GENERALLY:

The engagement occurred in March 2005 whereby I traveled and visited with persons associated with both SGD and MERENDON to the countries of Honduras, Venezuela, Ecuador, Peru and Canada to visit certain assets and personnel of MERENDON with the purpose of receiving facts relating to SGD's relationship as a lender of funds to MERENDON.

The main persons present throughout the visits were Graham Blaikie, President of SGD, Gary Sorenson, CEO of MERENDON. I was given unfettered and unrestricted access to the physical property and personnel of all companies. Generally the process of visits would be a physical tour of the premises of the particular company (site visit of mining concessions and administrative offices) coupled with a detailed oral and written presentation of the underlying quantities of ore bodies or gold reserves in the mining concession (proven, probable and possible) by the respective company geologists and management personnel.

DESCRIPTION OF MERENDON:

MERENDON as referred to herein is a group of companies described and located as follows:

CANADA: MERENDON Mining Corporation Ltd. a Canadian Company.,
Tar Sands Recovery, Ltd.,
Magna North Gold Ltd.

HONDURAS: MERENDON de Honduras S.A. a Honduran Company. ,
Oro y Metales S.A.,
MERENDON Jewellery S.A.,

VENEZUELA: MERENDON de Venezuela C.A., a Venezuelan Company.
Saranda Resort S.A.

ECUADOR: MERENDON de Ecuador S.A./ Empec S.A. de C.V., an Ecuador Company.

PERU: MERENDON Peru, a Peruvian Company.

DESCRIPTION OF DOCUMENTS: GENERAL SECURITY AGREEMENT

The relationship between SGD and MERENDON is prescribed and governed through two interrelated agreements. The first is a General Security Agreement (GSA) and the second is a Loan Agreement.

SGD has a relationship with MERENDON whereby SGD (lender) lends funds to MERENDON(borrower) and MERENDON remits and or accrues interest payments to SGD on amount of funds borrowed from SGD.

The GSA dictates that as security for the payment of the indebtedness of MERENDON to SGD, MERENDON grants to SGD a security interest in and a charge upon all of MERENDON's present and after acquired personal property; a security interest in and a charge upon the proceeds derived directly or indirectly from any dealing with any of the personal property and a charge upon all of its present and after acquired real property. All of the real and personal property described is Collateral for said amount of funds loaned. Specifically, this security interest is obtained by and through the majority shareholder of MERENDON, holding approximately 83% of the outstanding and issued common voting stock of MERENDON.

The Loan Agreement dictates that the amounts lent shall be available to MERENDON to be used for investment purposes with respect to the exploration and mining sector or any other use approved by the Lender. That as security of the amounts lent a hypothecation and pledge to and in favour of SGD by MERENDON of all of the shares owned by its majority shareholder by way of a share pledge agreement. Specifically, the loan agreement terms and hypothecation is obtained by and through the majority shareholder of MERENDON, holding approximately 83% of the outstanding and issued common voting stock of MERENDON.

DESCRIPTION OF MERENDON HONDURAS:

The major assets of MERENDON de Honduras S.A. include but are not limited to the gold refinery present in Tegucigalpa Honduras and the gold contained therein. This refinery consists of numerous buildings, equipment, machinery and personnel necessary to operate a fully functional gold refinery on secured premises.

I Met with Gary Sorenson in offices at MERENDON Honduras. The history of the project was discussed. The Company Oro y Metales Preciosos SA is the mining company operating in Honduras. Locals extract gold from the Guayape River known for gold. Compacinos are the locals extracting gold, peasants form a cooperative and MERENDON supports them financially and technically. Communities have for many years historically panned for gold. MERENDON has organized the co-ops, gave equipment making the job easier in order to find major amount of gold. MERENDON has been the only company that does this job which is why the community supports the company. The quantity of gold averaged over the past (4) four season being 02, 03, 04 and 05 has been 2,500 grams to 3,150 grams per week based on seasonal activity which commences annually each year in December through to June 30th each season. The average then declines due to the rainy season in Honduras to 500-1000 grams per week.

Originally MERENDON owned over 180,000 hectares, doing sampling, eliminating zones, and took concessions and eliminated those that were not showing promise. Exploration costs of 3.5 million dollars were incurred. 500,000-600,000 thousand ounces of gold per year were obtained, on all three rivers by dredging and washing. After hurricane Mitch water volume and sand washed away the small mining industry since gravel was moved with force and metal was driven deeper in river bed.

The company is well positioned with the Government. MERENDON is a free trade zone which allows the corporation to import and export unrefined and refined gold into and from Honduras tax and duty free. It further allows the corporation the privilege of having customs on its property for inspection of shipments which reduces the awareness of the movement of product and therefore provides a higher level of security.

DESCRIPTION OF REFINING PROCESS:

This description of the refining process is written to clarify the movement and production of gold product into the MERENDON de Honduras facility.

In particular there might be some confusion as to the movement of ore or gold from the various mining sites of MERENDON and other gold producers to the refining facility. Gold ore is not shipped to the refining facility but rather gold, unrefined in the form of concentrates or "dore" bars (as described below), are transported to the facility from the various MERENDON mining facilities and other producer's mining facilities in different locations.

On March 4, 2005 I met with David Hodges the production manager who detailed the gold refinery process. He explained a new method being developed for refining gold which is more efficient. The advantage of the new process being cheaper, easier and with less environmental issues which will result in 5-9's, that is 99.999% pure gold.

Generally the refining process first takes the weight of certain "dore" bars received from certain gold mine sites. These dore bars are gold in the form of a "dore" gold alloy mixture, in brick form, gold being greater percentage of metal present. The percentage of gold in a dore bar can be upwards to 70% gold and 30% for other metals. The weight of a dore bar is 5-6 kilos per dore bar. Each dore bar comes from a specific mine site. The bars are melted to determine the gold percentage content.

After melting the dore bars a sample is taken by a vacuum tube which sucks up metal. The ends of the vacuum tube are then cut and a thin wire of sample, 1/8 of inch thickness exists weighing 15-20 grams which is then cut into 3 parts, one part for MERENDON to assay, one part of the sample for client to weigh (who owns the gold) and one for Honduran customs. After this sampling, this weight of gold is then the official weight of what is brought into country. This process takes up to 3 hours.

Assays are performed by MERENDON. Certain personnel use the standard bullion assay method. They place a sample into a 900 degree oven, with 5-10 grams of lead foil. This 5 gram sample will "Cupel" and will end up with less than .5 gram. A Cupel is a magnesium ash container in the form of a bead. These beads are then taken to determine the gold content. The bead undergoes a process of "parting". The bead is mixed with pure silver and by looking at color and weight of the bead a determination is made of how much silver to mix with it. The bead is then Cupeled again and this produces a bead weight in 2 and one half grams. Rollers then flatten the bead out into a strip. The strip is

then made smooth and long and then made into a circle which is placed inside beaker, with 25% nitric acid which dissolves the silver and gold remains, a gold “coronet” crown. This process takes 2-3 hours. Then they place this material in the furnace, making the gold more compact, to make pure gold. The material is then checked and the results are compared against standardized gold. “proofs”. The percentage of gold is now known and the Client will agree with the percentage.

New dore bars are then transferred into a chlorination furnace using chlorine gas. This will produce 95% gold. Silver chloride is then placed on top of the gold which forms into a mold. After 2 hours the gold is 99.6% which is taken out of the furnace, weighed and made into little beads. Granulation is then used to increase the surface area which the acid then has more surface area to work with the noble water. This granulation process is the “miller process”.

The gold then goes into the noble water and dissolved to produce a gold solution, a “pregnant” solution. There is then some silver in the solution, which is filtered and ready for precipitation that is reduction of gold into a metal. The process gets as much silver out of the solution which is about 2-3 percent. The gold is then precipitated into a solid, which means the gold precipitates out as brown liquid; this gold is 99.9% pure. The process produces gold which is 99.99% pure.

The process will then add gold to the process and using “noble water” will dissolve gold with 1 part nitric acid to 4.5 hydrochloric acid with the objective to get gold into a form for using “noble water” which will then be used to make 4-9’s that is gold that is 99.99% pure.

The capacity of the processing plant based on one 8 hour shift is 60-80 kilos of dore bars per day. There are 15 production days per month.

The Hydrochloric acid which is neutralized with sodium carbonate having a “ph” of 7, with up to 200-300 gallon per day does not discharge but rather the liquid is filtered and dried to get solids out. The solution is then evaporated into a concentrate, and pumped into a drier which produces rocks of sodium sulfate which is harmless and dumped. 200-300 lbs of rock salt comes out of this solution. The water is then pumped back into the plant then purified and placed back into process.

The approximate cost of the equipment in place in the refinery is 8 million U.S. dollars.

DESCRIPTION OF MERENDON VENEZUELA:

(see report provided by MERENDON on project status)

I traveled to the MERENDON facility in Venezuela and met with a Mr. Darryl Gordon and Mr. Richard Downes the managers of the facility along with other geologists and personnel. The history of MERENDON in Venezuela started when the company began purchasing ore from local miners. This ore was very high grade, meaning that the quantity of gold in the ore was greater in quantity than in lesser grade ore. The ore was processed into "Concentrate" (a product containing the valuable metal from which most of the waste material has been removed). The plant facility is not currently being operated. The Company is in the process of an application for concessions. Upon the granting of the concessions the Company will purchase a "closed" cyanide processing system (whereby the cyanide is not released into the environment) and begin processing the low grade ore as well as the "Concentrate", the high grade ore. Additionally the Company will begin exploring new the concessions.

The existing Concentrate consists of: 196 barrels (each barrel is a 45 gallon drum). There are 6000 grams of gold per barrel. Each barrel weighs approximately 1 ton. Thus the 196 barrels (196 tons of concentrate) has approximately a total of 37,800 ounces of gold in the concentrate having a percentage of 90%. Thus there is 34,028 ounces of gold valued at approximately U.S.\$14,700,000.

The Concentrate will be subject to recovery from a cyanide process and actual grade and percentage will be determined at that time of recovery. The Company has applied for a batch cyanide license which will have a small one ton per day capacity. The permit is to be granted imminently for a cost of approximately \$196,000. The "closed" cyanide process does not pose any detrimental environmental concerns or effects. The system will be installed to United States and Canadian standards. The waste material is diluted by the sun and there is no harmful release of the water from the process.

The capacity of the plant will be 150 tons of ore per day. For clarification in this REPORT the statement "tons of ore" is used to express that amount of weight of ore that is processed to mine any amount of gold. The volume of a "ton of ore" is approximately one yard cubed.

The facility consists, in part, of a jaw crusher, cone crusher, fine ore bin to primary ball mill to secondary ball mill to a cyclone separator to a nelson concentrator of primary mill. The Nelson concentrator discharges concentrate. The concentrate will have approximately 15 grams of gold per ton of ore (which is very efficient). The Nelson concentrate is then taken to a special table to recover more gold. Dore bars are then made to be refined in the plant in Honduras.

The approximate cost of the investment in Venezuela is U.S.\$8,750,000.00. The equipment has a book value of U.S.\$5,250,000.00. The plant was purchased in December 2000. Operating Expenses are U.S.\$65,000 per month.

SARANDA RESORT S.A.

Saranda is an upscale resort which is an asset pledged as security under security agreement. MERENDON owns seventy percent (70%). The value is approximately ten million dollars \$10,000,000.00 as of March 2005.

DESCRIPTION OF MERENDON ECUADOR
DESCRIPITON OF MERENDON/EMPEC ECUADOR:
(see report provided by MERENDON on project status)

I met with Glenn Good the plant manager as well as with other personnel. The mining activity in Ecuador consists of the Placer type. The history of the Company is that the original alluvial concessions were purchased 18 months ago and then about 15 months ago the Company procured additional concessions. MERENDON owns 55% of this second concession, which is known as Empec Ecuador.

A U.S. public company listed on the TSX-VENTURE Exchange named Hampton Court owned the original alluvial concessions in 1996 and had invested about 18 million in exploration costs. Mr. Glenn Good worked for Hampton Court previous to his employment with MERENDON and came to work for MERENDON in 2002. The concession was run down and not properly developed by Hampton Court and by October 2002 Hampton Court had cash flow constraints that prevented development of site operations.

All mining development stopped in August 2003. MERENDON Ecuador then purchased the concession by paying off the debts of Hampton Court in the amount of U.S. \$700,000.00. Hampton Production previously was approximately 2556 ounces of gold produced in over a 10 month period. The Concession consists of approximately 27000 hectares or 60,000 acres.

Hampton has a 10% net royalty from MERENDON's concession as part of the purchase agreement with Hampton.

Total investment to date is approximately: U.S\$1, 600,000.00.

The Government is very supportive of mining and encourages foreign investment. There are 7-8 Canadian mining companies in Ecuador. MERENDON is well connected to the Government and relations are excellent.

The mining operation, as mentioned earlier is that of the Alluvial kind. The equipment needed will be a screen plant as described below:

SCREEN PLANT:

The Proposed mining unit will include and will cost the following in Canadian dollars: a bull dozer 1.3 million, 2 excavators (backhoe) 40,000 each, a screen plant: wash deck

with series screen discharge belt, 2 per each site 200,000, support equipment: service truck 50,000, fuel truck 15,000, field pick up 40,000, 2 all terrain vehicles 10,000 each, tools, welding 100,000, 2 pumps/piping 40,000 each and a contingency 75,000. The cost for one mining unit will be approximately \$2, 880,000.00.

The mining strategy is to place 6 units into operation by mid 2006. A total of \$17,280,000 Canadian dollars will be needed for the 6 mining units.

All 6 units will produce the following in a 10 hour day: 36,000 grams per day equals 347,227 ounces per year. At U.S.\$300 per ounce value this equals over U.S.\$104 million per year net income.

The amounts of Reserve for those concessions of MERENDON Ecuador are:

Delineated: measured, proven: 375,478 ounces at a rate of 90% recovery with an average grade of .448. These are from concession reports as purchased from Hampton Court which is a total of 318,806 ounces recoverable. The cost of recovery is U.S.\$90.00 per ounce. Cost of recovery includes amortization of capitalized cost of equipment.

Proven probable: reserves are 933,257 ounces. This amount includes Hampton's remaining concession that will become MERENDON's. The value of reserves at proven probable is 933,257 ounces less the delineated reserve of 375,478 x 90% . This amount should be discounted by 50%. The amount then is 251, 000 ounces of proven probable reserve.

At a sales price per ounce U.S.\$441.00 and a cost of U.S.\$90.00 per ounce the net sales price is approximately U.S.\$350.00 per ounce. Thus:

Net value of reserves at delineated: 318,000 x \$350.00 = U.S.\$111,300,000.00

Net value of reserves at proven probable: 251,000 x \$350.00 =U.S.\$87,850,000.00

The Tena project, an alluvial project as described above is located 189 kilometers from Quito Ecuador. The Rivers located within the Tena project are geologically determined by extensive geological evaluation to be excellent collectors of gold bearing gravels through gravity and erosion and therefore through evolution and extensive testing results they are known to contain economic deposits of gold bearing gravels within the alluvial deposits. The Rivers drain into a concession area which is an area of 320 square kilometers.

DESCRIPTION OF MERENDON ECUADOR

DESCRIPTION OF EMPEC ECUADOR:

(see report provided by MERENDON on project status)

I met with Edgar Pilljo an engineer and a Mr. Roland Glasser a partner in the venture. The project of MERENDON and Empec averages 6 grams of gold per ton of ore. The cost to produce is 3 grams of gold per ton. Thus the net production is 3 grams of gold per ton of ore. The production at the time of the inspection was stated to be 200 tons per day at an average grade of 6-8 grams per ton. Plans to increase the production were revealed to the writer of reaching 400 tons per day by the year end 2005. The writer has been made aware that since the inspection it is now realistic to list production levels of 1000 tons per day by February 2006. The mine has been updated and will now operate a floating circuit along with the normal gold circuit. This addition will lower recovery costs and make the process more economically viable than in the past 18 months of operations.

The cost to produce 100 tons per day is U.S.\$5,000. There are 224 employees costing U.S.\$2,500 labor per day. Thus the cost for one month production is U.S. \$150,000.00. Production will increase to 400 tons but the same amount of fixed costs will be incurred, except an increase in cyanide costs. The Mill and mine site has been in operation for a period of 15 months. The Surface rights are now rented and the shaft and mill which are being leased are now going to be purchased from the estate of owner.

The first mine was explored from year 1900 – 1950. The operating costs for that original company were 15 grams. Then another company worked mine from 1950-71. Afterwards all activity stopped. The original company reported that the exploration was 3.5 million ounces. From reports from other small companies and other informal reports the amount is approximately 5 million in total ounces in reserve.

MERENDON has 20 kilometers of veins established through geological evaluation. The depth estimated is 800 meters and 0.8 meters wide. This is the size of the vein. Density of rock is 2.7. Previous companies made an analysis of area. With this information MERENDON expects reserves are 34 million grams in the property. The Company can recover 60% of this 34 million grams which equals 20 million grams, with a quality of 6 grams per ton of ore. Thus 4 million ounces of gold are recoverable. Other company geologists estimate 1 million ounces. Thus 1 million ounces of gold is a conservative amount of reserve of recoverable gold.

I met with two geologists for the Company. Mr. Boris Yepez who studied mining between 1985 and 1991 and worked for small and large mining companies in Ecuador, Chile and the United States. He is a degreed engineer and geologist. He started working with MERENDON in September 2004. Mr. Pablo Salgado is a mining engineer and geologist. He began studying in 1985, worked in same companies with Boris Yepez. Last position with IM gold a Canadian company and worked for Prominex a Norwegian company and began with MERENDON in November 2004 putting together program of mapping concession. 10 years experience in mining and hold a 6 year professional degree.

DESCRIPTION OF MERENDON PERU:

(see report provided by MERENDON on project status)

I met with Luis Villena having 25 yrs experience in the mining industry, Mr. Yuri Arones with 10 yrs experience, Mr. Hans Canales with 6 yrs experience and degreed geologists. Mr. Henry Galvez, geologist with 5 yrs experience, Mr Marco Escalante with 9 yrs experience as an industrial engineer applied to mining geology, Mr. Fidel Montoya geologist.

The history of the project begins when MERENDON received a call from Metalor, a U.S. refiner, suggesting that an opportunity existed in Peru with a person named Juan Verra who was an international sales manager with Microsoft.

Manuel Cabrera was the owner of the JIRE 1 project which began in March 2003 as an original small mining operation. In 1995 Manuel started looking for mining opportunities in Peru and began mining in 1997. He gained knowledge of the area and hired geologists, engineers etc. He joined with MERENDON to have a larger company help with the project. Manuel worked in 1978 to have a company send him to develop a placer gold project where he learned about placer gold mining. He was determined to move outside Peru to find people in gold metallurgy and went to the U.S. to gain knowledge in gold metallurgy. He went to the Colorado School Of Mines and then went to a small mining company in Nevada in 1981. He worked for numerous gold mining companies and then met a mining company in Peru and agreed to work for them. Manuel started exploration after searching for 3 years and is very experienced in the gold business.

The JIRE 1 concession confirmed gold presence in the area. The project contains 4500 meters of tunneling and a pilot plant which produces 35 tons per day of ore. The Company is concentrating on JIRE 2 project which is an open pit and not an underground project. The JIRE 2 concessions are across a river from JIRE 1.

He joined with Manuel for development of the project named JIRE 1, which project larger then their financial capability. Metalor could not join the project and it was suggested that MERENDON do so. MERENDON then purchased 60% of the assets of the Company and then bought Verra's interest. Now 81% of the Company is held by MERENDON, Manuel owns the remaining interest as of March 2003. JIRE 1 was operational and then the geologists began looking at other areas to develop. The geologists found a new area , and MERENDON shut down operations in JIRE 1 and sought to develop JIRE 2 the new area since the time of the physical inspection MERENDON has made arrangements to acquire the additional 19% of ownership making it a 100% owned MERENDON project.

Mr. Shad Prashad is the manager of the Company, MERENDON Peru and was previously the Consulate for Canada in Honduras.

We were unable to visit to the mine sites due to heavy rains and road washouts.

The mining company Barrick has mines in area and are very successful mining 700,000 ounces per yr. The cost to develop a mining facility for the JIRE 2 project is estimated at 150-200 million in plant investment.

The term of the concession is for life if the Company pay the fees. The amount is \$4.00 per hectare and increases after 10 yrs if the Company does not develop the concession.

JIRE 2 is going to be an open pit mining operation.

Numerous studies were performed, core samples were taken, in the course of 18 months, 1.5 million dollars were spent and the geologists from MERENDON agreed on the results.

The project is now in a geophysical phase with drilling etc. The drilling program consists of 6 sites to drill on with 3 holes per site equaling 18 holes. The cost will be 1.7 million dollars to complete this in 9 months time. A third party company will perform this function.

The Ore Reserves are being calculated as follows: Reserves: not proven, not delineated: 400 m long, by 400 m wide, 100 m deep, = 40 million tons of ore, 1.5 grams per ton, 60 million grams = 2million ounces. MERENDON has used 1 million ounces for reporting purposes. The Percentage recoverable is 85-95 %.

Drilling will establish a measured reserve.

Cost per ounce: open pit, \$180-200 highest estimate, probably \$110.00

Expectation of reserve: ore body is 800 meters to 1 kilometers across. Using only 400 meters long (1/2) using 400 m wide (not 1 kilometer) and only 100 meters deep. 2 million estimated reserve, estimates: if using entire ore body, 4 million etc,

Sales price per ounce \$441.00 Cost of \$110.00 per ounce. Net sales price of cost of approximately U.S.\$330.00 per ounce

Net value of reserves at delineated amount:

1,000,000 ounces x 90% x \$330.00 =U.S.\$297,000,000.00.

Net value of reserves at probable amount:

2,000,000 ounces x 90% x \$330.00 = U.S.\$594,000,000.00

\$97,000 per month expenses which includes any concession fees.

DESCRIPTION OF MAGNA NORTH GOLD LTD:
(see report provided by MERENDON on project status)

The Magna North project is a placer mining project that has delineated reserves of 8,500 ounces of gold and has probable reserves in the amount of 50,000 ounces of gold. The estimated cost of production is \$85.00 per ounce.

Sales price per ounce \$441.00 Cost of \$85.00 per ounce. Net sales price of cost of approximately U.S.\$350.00 per ounce.

Net value of reserves at delineated amount: $8,500 \times \$350.00 = \text{U.S.}\$2,975,000.00$

Net value of reserves at proven probable amount: $50,000 \times \$350.00 = \text{U.S.}\$17,500,000.00$

The cash invested to date approximates \$2,600,000.00.

SECTION THREE: OPINION

The purpose, in part, of my visit and the subsequent REPORT is to provide my opinion, based on the events, documents, facts and observations as to the issues of security and collateralization of the funds lent by SGD to MERENDON and additionally, to provide my opinion based on the events, documents, facts and observations as to the issues of MERENDON being an operating company having actual operations with the requisite assets and personnel within the context of MERENDON's industry which is the exploration, development and mining of gold ores.

MERENDON's history began more than 5 years ago as a gold refining company in Honduras. Starting with modest facilities, the Company, through its personnel and in particular through the expertise of Gary Sorenson, has been able to capitalize and leverage the Company's position to develop a substantial processing facility and valuable mining concessions in numerous countries. The business acumen of Sorenson is illustrated in particular by the Hampton Court (Ecuador) transaction whereby the Company purchased valuable mining sites and accompanying data for minimal capital and the JIRE 2 (Peru) transaction whereby the Company partnered with experienced personnel to establish, geologically, an extremely valuable mine concession. It is important to note the previous development of the Company since past results is an indication of future performance.

The first 5 years of the Company's activities are to be characterized as the developmental stage of the Company with the development of the refining facility and the acquisitions of the various mining concessions. The next 5 years of the Company's activities will be characterized as the production stage whereby the mining concessions will be more actively and substantially mined, in particular the Ecuador and Peru properties. There is a transition plan in effect for the future continuation of the Company in the event Gary Sorenson can no longer fill his position as CEO.

AMOUNT OF COLLATERAL: The values of amounts of gold in the ore bodies of the concessions, whether delineated or proven probable or possible have to be mined and processed. The Company, having a previous acquisition stage, will now need to implement its production stage. A mining processing facility exists in Venezuela and Ecuador but one must be built in Peru. The value of gold in the concessions of MERENDON exceed 1 billion dollars. This value serves as the collateral or security for the loan from SGD to MERENDON. I was told the approximate amount of the loan from SGD to MERENDON as of March 2005 was about U.S. two hundred million.

LIQUIDITY OF COLLATERAL: Mining is a long term capital intensive business. The issue concerning the collateral or security is the liquidity of same, that is the ability of repayment of the loan, *in full*, with funds from the disposition of the collateral. I was told that should the loan be required to be paid immediately in full, that as is standard in the industry, a period of about 5 years is generally required for any collateral of the type MERENDON has (at this time) to be liquidated to repay loans in full. Thus MERENDON, by entering into its production stage, will begin producing gold in sufficient quantity to liquidate the underlying collateral which appears to be sufficient security for the amount of the loan from SGD, should sufficient processing facilities be provided. Additionally, perhaps if the necessity arises to repay the loan *in full*, a sale of the assets could be conducted.

OPERATIONAL EXISTENCE: MERENDON is a fully operational company having activities relating to gold refining, exploration, development and production in different phases. The Company has operating staffed offices in each location with administrative and geological personnel. The personnel of the Company that I met in each location were knowledgeable and experienced in their fields.

The value of the assets of MERENDON including values of ores in the concessions based on the materials presented by MERENDON are as follows:

HONDURAS:	Value of plant equipment:	U.S.\$ 8,000,000.00
	Gold in plant and on deposit:	U.S.\$ 8,200,000.00
VENEZUELA:	Concentrate: 34,028 ounces of gold:	U.S. \$ 14,700,000.00
ECUADOR:	Net value of reserves delineated :	U.S.\$111,300,000.00
	Net value of reserves proven probable:	U.S.\$ 87,850,000.00
PERU:	Net value of reserves delineated :	U.S.\$297,000,000.00.
	Net value of reserves at probable :	U.S.\$594,000,000.00
MAGNA NORTH:	Net value of reserves delineated:	U.S.\$ 2,975,000.00
	Net value of reserves proven probable:	U.S.\$ 17,500,000.00
SARANDA RESORT	Net value:	U.S.\$ 7,000,000.00

Sincerely,

Martin Werner