De Villiers Exploration Limited

Geological Report Mafuga Forest Gold License EL 0103

Kabale District South Western Uganda
Michael E. de Villiers 15 September 2006

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1. Introduction

1.1 Objectives Terms of Reference

Marius Welthagen Managing Director of Thabex Exploration Limited contacted Michael E de Villiers and asked him if he had a good gold exploration proposition in Uganda. A meeting was held with a view to enter into a joint venture agreement to explore and develop the gold potential of the Mafuga Forest gold exploration License EL 0103 held by De Villiers Exploration Limited (DeVex). A draft joint venture agreement and non disclosure non circumvention (NDNC) agreement was presented to Mr. M. Welthagen. Mr. Welthagen signed the document on behalf of his company.

Subject to a favourable outcome after the site visit and due diligence study the DeVex and Thabex would enter into a formal joint venture agreement to conduct the proposed exploration program. Thabex will earn a substantial share in the license by contributing to the exploration program.

1.2 Location and Access

The shape of the EL is an elongated hexagon elongated in a North – West / South – East direction to cover the two gold targets identified during reconnaissance prospecting. The EL covers and area of 178 square kilometres and is located on 1:50,000 sheet 93/2 Rubanda.

The location of the EL in Uganda is shown on General Location Map Figure 1-1 P 44.

Well maintained all weather dirt /gravel (murram) roads from Kabale town to the license area provides easy access to the license area. There is a floating bridge at Hamurwa crossing the Ishasa River where a daily road toll fee is levied to maintain the bridge.

Access into the forest reserve is by means of well maintained murram roads which are maintained by the National Forestry Authority of Uganda. The route is via Kabale – Hamurwa – Kanungu and Kabale – Muhanga – Kissizi roads.

The license is about 18 km north of Kabale the district administrative capital. Kabale is 422 km from Kampala. Driving time to Kabale town is 6 hours from Kampala on a paved highway.

There is an adequate water supply and the streams and rivers are perennial. The area is sparsely populated and the inhabitants are mainly employed by the National Forestry Authority.

The topography of license area is highly incised and most areas within the license area have to be reached on foot. It is a difficult terrain in which to do exploration. The rugged nature of the terrain in the license requires long traverses on foot.

1.3 Legal Description and Ownership

De Villiers Exploration pegged and successfully applied for the license area. The license application was approved by the Commissioner Geological Survey and mines department of Uganda and the Exploration License number EL 0103 was granted to the company on 12th April 2006.

The Exploration License is owned 100% by De Villiers Exploration Limited.

Table 1

Claim Beacon Locations

Licence Name	Beacon No:	Beacon type	District & County	Latitude & UTM grid Northing	Longitude & UTM grid Easting (Z35)
Mafuga Forest	LB	Location Beacon LB	Kabale - Rubanda Co	1°00'12" S 9889000 N	29°50'36" E 816500 E
EL 0103	CB 1	Corner beacon CB 1	Rukungiri - Rubanda Co	1°00'12" S 9889000 N	29°56'15" E 827000 E
	CB 2	Corner beacon CB 2	Kabale - Rubanda Co	1°03'57" S 9882000 N	30°00'00" E 834000 E
	CB 3	Corner beacon CB 3	Kabale - Rubanda Co	1°07'13" S 9876000 N	30°00'00" E 834000 E
	CB 4	Corner Beacon CB 4	Kabale - Rukiga Co	1°07'13" S 9876000 N	29°54'22" E 823500 E
	CB 5	Corner Beacon CB 5	Kabale - Rukiga Co	1°03'28" S 9883000 N	29°50'36" E 816500 E

The area was pegged primarily to prospect for gold mineralisation.

1.4 License History

Gold was mined in the Chelimna River during the 1930's. Gold nuggets of up to half an ounce were recovered from the Kirima River, located on the eastern part of the Exploration License.

A license was granted to Tusker Exploration Limited over the area in 1995. This company failed to do any exploration over the license. No reasons for this inactivity could be found in the records of the DGSM.

In December of 1997, applications were submitted by Cluff Mining Ltd. For five gold and base- metal Exploration licenses in South - Western Uganda. On the 20th of February 1998, concessions were granted on these applications.

These concessions covered 1 702 sq. km. over most of the prospective ground in the Kigezi region (Including the area covered by EL 0103) which is considered to be the third largest gold producing area in Uganda. Most at the gold production from the concessions had previously come from alluvial sources and there has been little exploration effort put towards defining bedrock lodes.

Cresta Mining Company (U) Limited (Cresta) pegged the area in 2002 and was granted a Special Exclusive Prospecting License (SEPL) on 10th march 2002. Exploration was subsequently conducted by the company on the license area.

Sampling of numerous outcrop and float samples was done by this company. Cresta Mining (U) Limited stopped all exploration in Uganda during October 2005. The Exploration License held by Cresta was relinquished and the ground reverted back to the government at that time.

De Villiers Exploration Limited subsequently successfully applied for and was granted the Exploration License over the area previously held by Cresta.

1.5 Previous Work

1.5.1 Stream Sediment Sampling and airborne geophysical survey

A major stream sediment geochemistry survey carried out by the United Nations Development Program and the Department of Geological Survey and Mines Department (UNDP-DGSM) in 1995 and 1996 and an airborne geophysical survey (magnetic, radiometric) *carried out* by G*eosurvey* International in 1980 have advanced the exploration potential of these licenses tremendously

1.5.2 Cluff Mining Regional Stream Sediment Sampling

Cluff Mining of Canada in the period May 25 to August 31 1998 conducted a 750 km^2 regional stream sediment sampling program in the Kabale district. Based on the results of this survey, the geologist in charge of this program recommended further evaluation of the Mafuga Forest area, and of the Mulindi valley about 24km further west, the company decided that the style of mineralisation for a large low grade open pit operation would not be met and the company decided to relinquish their license.

A total of 150 stream sediment samples was taken by Cluff in the Kirima area with the following results.

Table 2 – Stream Sediment Sample Results

Target Area	Range of Values for gold (Au)				Total samples
	> 50 ppb	10 -50 ppb	1- 10 ppb	<1 ppb	
Kirima	2	1	53	95	150

The sample locations were plotted on 1:50,000 scale maps. Unfortunately these maps were unavailable from the DGSM.

1.5.2.1 Kirima Gold Target

1.5.2.1.1 Keerere -Rutooma Area

The only stream sites to return “highly anomalous” gold values are located in two first order streams, which are tributaries of the Kishasha river that drains the Keerere area. The results from the stream sediment samples showed 352 ppb Au and 55 ppb Au in the -80 mesh fraction. Visible gold was recorded in the panned concentrates from these two sites as well as other sites, namely KSS 147, KSSI49 and KSS 150 within the portion of the catchment basin sampled. The area of potential uncovered is about 3.5 sq km in size.

In the course of the stream sediment sampling, outcrops of quartz-hematite vein and breccia, sericite - pyrite- bearing phyllite and mudstone, and associated sericite-rich, brecciated and iron oxide cemented sandstones were located and measured to trend northwest. Crude crushing and panning of these rock types yielded three specks in the quartz vein sample. The result was not spectacular.

The Keerere area was not well covered during the survey. Field work was terminated just at the time when sampling in the area began. On the basis the rock types identified and the results obtained from the dollied rock samples as well as pan concentrate and silt fraction samples from the streams draining the area, the target can be defined as auriferous quartz-hematite vein in a probable fault or shear zone.

Drainages in the Rutooma and Katendere areas are known to have been worked in the past for alluvial gold. This is evidenced by the alluvial workings observed in the river beds of three major drainage systems in the area. This observation however, is not reflected in the stream sediment results returned by samples from these drainage’s. The highest silt fraction results recorded is 4ppb Au. 1wo BLEG samples assayed I ppb Au.

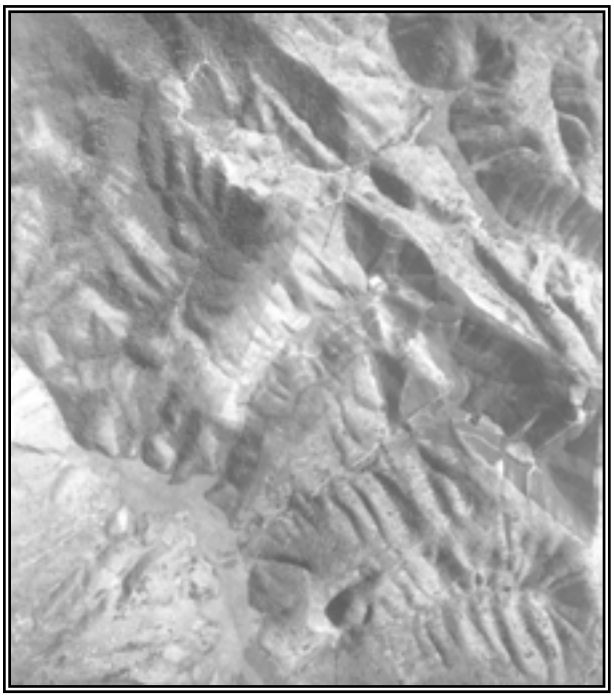
Quartzite interbeds with fracture-filled quartz-hematite, and milky-white veins occur alongside subordinate quartz-vein bearing sandstone and grit. Floats of iron oxide cemented breccia are common.

1.5.3 Cresta Mining Company (U) Limited

1.5.3.1 MAPPINGAND AERIAL IMAGING PREPARATIONS:

In 2001 Cresta purchased the 1:100,000 scale Geological Maps and 1:50,000 scale Topographic Maps of the Kabale District. Prior to their reconnaissance of the area, after which the claims were marked and applied for. These maps are all of 1960's vintage and are rather out of date, however, they were the only maps of that area we were aware of at the time. These have all been digitally scanned at the CMC office in Scotland, and converted into a set of A4 sheets at 1:25,000 scale for field mapping purposes.

A complete set of 13 low altitude stereographic aerial photographs covering the prospect (circa 1953) was obtained from the Department of Lands and Surveys for photo geological mapping of the main structures and lithologies.



A 1953 aerial photo 9/UG10/079 Rutooma

Part of the Landsat image covering the same area around Rutooma as the aerial photo

Earlier in 2001 Cresta had commissioned HME Consultants in the UK to produce 1:100,000 scale ortho-corrected spectral Landsat images of the Kabale district covering the whole area of the Mafuga Forest and Muko prospects and the intervening Rubanda Granite outcrop. From this a 1:50,000 scale images were made covering only the Mafuga Forest Prospect. These images show a lot of the

structural detail of the region's geology, especially the distinctive NW-SE folding of the Karagwe-Ankolean system, the intrusive Rubanda Granite and a system of faults and shear-zones in the surrounding country rock, particularly noticeable in the Mafuga Forest area. We believe these faults and shear structures were conduits for hydrothermal mineralisation in the roof-zone of the Rubanda Granite, which appears to extend at some modest depth beneath much of the Mafuga Forest area.

The existing 1:100,000 Geological Map of the area (Sheet 93, Kabale) was published in 1965 based on geological mapping work by A. D. Combe between 1922 and 1928, and by R. G. Seal in 1960 / 61.
It shows a thick sequence of tightly folded and steeply inclined phyllites and quartzites of the Karagwe-Ankolean system having dominantly NW-SE striking fold axes interrupted by more complex and poorly defined local structural features, and intruded by the Rubanda Granite pluton which outcrops over a 40km^2 area centred about 7.5km WSW of our SEPL location beacon. This granite forms a characteristic arena-like topographic low, and has a similarly exposed smaller outcrop to the NE of the main body. The degree of structural disruption of the Karagwe-Ankolean strata to the NE of the granite outcrop suggests the probability of an extensive roof zone at no great depth beneath much of the SW half of the prospect area, and this is borne out by the more recent airborne geomagnetic survey of the region (Nyakaana, J.) which shows a large magnetic low extending across the Rubanda Granite including a broad arc to the NE that is considerably larger than the outcrop area.

The 1953 aerial photographs and our new satellite images show a number of cross-cutting sub-vertical faults and shear zones with a general NE strike, clearly associated with the intrusion of the Rubanda Granite, and our in-house satellite image studies has also delineated these features as primary targets for gold/wolfram and sulphide mineralisation in the area. Our reconnaissance of the area in the first quarter of 2002 showed a very close correlation of mineralised quartz-vein and gossan outcrops with the satellite targets we had previously identified.

We believe that parts of these structures are the loci of hydrothermal mineralisation in the roof-zone of the Rubanda Granite pluton, and thus our primary aim in mapping the area is to develop a clear interpretation of the local crosscutting structural features and the occurrence of quartz-veins and associated mineralised zones.

1.5.3.2 Exploration Progress at Chelima prior to obtaining Forestry department access permit.

Cresta geologist's reconnaissance work had already given a fair idea of the overall geology and the likely mode of occurrence of gold mineralisation in the area. Douglas Bates resolved to start by sampling of alluvial sites outside the Forest Reserves, prior to obtaining the actual Forestry Department Permit.

Lacking any proprietary sampling or gold panning equipment, Douglas Bates designed a rudimentary panning set for analytical study of the alluvial deposits and production of small concentrate samples, comprised of a series of four small interchangeable plastic basins fitting two stacking iron racks. Three of these basins are perforated with holes of 1-inch, ½-inch, and ¼-inch, and the fourth is the concentrate catcher at the base of the series. Samples were weighed at the start and in component graded parts, and the separated aggregates were lithologically enumerated and studied for features of interest and for visible gold in aggregate and in panned concentrate.

In the time available, only three pits were dug and sampled, above N2, at N7, and below N5D, but even so, the makeshift panning set showed the potential analytical value of this approach to sample analysis. Variable quartz and gossan/ore content and characteristics were noted, and gold was found even in these quite small and rather poorly representative samples.

In studying the geomorphology and history of the Nyabirigita valley at Chelima, it became clear that the alluvium here has been extensively worked and re-worked over a number of years, and there were at one time some quite large diggings. Gold was evidently won in payable quantities, and is still found even in old tailings and in poor sampling conditions.

The table on the following page shows the results of systematic separation of the Chelima samples into component parts that are relevant to gauging proximity to possible upstream gold sources.

Similar treatment of small-medium sized samples may be used at the listed sampling locations, although it would be preferable to use a more mechanised bulk sampling method, employing a sluice box or rocker to attain more uniform recovery rates.

Table 3 – Panning equipment test at Nyabirigita River, Mafuga South Prospect

Sample Reference, Total weight & Portion	Portion Weight & Pebble Count	K-A phyllite/quartzite	Hydrothermal Quartz vein/gossan	Free Gold content & comments
N2 (Chelima-1) 25kg				
>1-inch aggregate	5.8 kg total 137 pebbles,	92 pebbles of K-A (75% phyllite and 25% quartzite)	45 pebbles of Quartz vein & gossan/ore (75% quartz and 25% oxide ores)	1 grain visible gold (under 10x lens) with hematite
½ - 1-inch aggregate	4.7 kg total	3kg (75% phyllite and 25% quartzite)	1.3kg (75% quartz and 25% oxide ores)	None observed A few well-formed quartz crystals observed
¼ - ½-inch aggregate	2.8 kg total	60% / 20%	15% / 5%	None observed A few well-formed quartz crystals observed
Concentrate < ¼ “	5.0 kg	50% / 25%	20% / 5%	2 small grains in pan, (Bagged concentrate in 2 containers labelled CH-1)
Mud & fines washed out of pans.	6.7 kg	-	-	fines impossible to gauge physically.
N7 (Chelima-2) 22kg				
>1-inch aggregate	9.8 kg total 57 pebbles	21 pebbles of K-A (60% phyllite and 40% quartzite)	36 pebbles of Quartz vein & gossan/ore (85% quartz and 15% oxide ores)	None observed A few well-formed quartz crystals observed
½ - 1-inch aggregate	5.5 kg	25% / 15%	55% / 5%	None observed
¼ - ½-inch aggregate	3.8 kg	20% / 25%	50% / 5%	None observed

Sample Reference, Total weight & Portion	Portion Weight & Pebble Count	K-A phyllite/quartzite	Hydrothermal Quartz vein/gossan	Free Gold content & comments
Concentrate < ¼ “	2.1 kg	10% / 30%	55% / 5%	1 small grain in pan. (Bagged concentrate in 2 containers labelled CH-2)
Mud & fines washed out of pans.	0.8 kg	-	-	fines impossible to gauge physically
N5 (Chelima-3) 21kg	Estimates from shallow sample, taken in haste… not representative of potential gold horizon			
>1-inch aggregate	2.3 kg	55% / 20%	23% / 2%	None observed
½ - 1-inch aggregate	3.5 kg	50% / 25%	23% / 2%	None observed
¼ - ½-inch aggregate	4.2 kg	40% / 30%	27% / 3%	None observed
Concentrate < ¼ “	4.5 kg	25% / 35%	35% / 5%	None observed
Mud & fines washed out of pans.	6.5 kg	-	-	-

1.5.4 De Villiers Exploration Limited

1.5.4.1 Target Selection

From a geological perspective the regions adjoining the target area contains alluvial gold concentrations that were commercially worked in the past. The concentrations are in the Kiruruma and Ishasha drainage systems. There is virtually no hard rock exploration done in this area. A further contributing factor is the fact that the target area lies in a large province of gold deposits which seems to be continuous from the northern Kibara belt. The Kibara belt extends from Zambia/Angola/DRC border in the southwest, through the DRC, Burundi, Tanzania, Rwanda and south-western Uganda. The target area is also in close proximity to the Rubanda tin granite. Mineral paragenesis of tin and tungsten

deposits has gold as part of the hydrothermal suite occurring within tin granites. Locally the target area is sited in the Karagwe - Ankolean system.

1.5.4.2 Reconnaissance Prospecting

The 178 square km license previously held by Cresta is centred approximately 20km north-northwest of the district capital, Kabale, in a deeply dissected area still partly covered by stands of timber established during and after the colonial era. One of the main tributaries of the Kiruruma liver that drains the area to the south has been worked historically for gold and there is evidence of small-scale diggings into the cut-away banks of the roads that traverse the area

The Karagwe-Ankolean phyllites and sandstones that underlie the license are extensively veined throughout, mainly by quartz, generally milky and varying from a millimetre thick to well over a metre. Iron and manganese commonly accompany the quartz, with boxwork textures widespread, indicating replacement of sulphides, probably mostly pyrite. Joint, cleavage and bedding planes in the sediments are generally iron-stained and it is likely that the fresh rock would be quite intensively latticed by pyrite. At one locality high in the hills fresh quartzite was encountered with bands a few cm thick conspicuously peppered with crystalline pyrite separating either un- or less mineralized bands, and millimetre veins of pyrite present. This rock is highly siliceous, possibly indicating silicification as part of the hydrothermal history of the area.

The Rubanda Granite dome is 10 km to the west of the area and a conspicuous circular pattern of drainages lies closer, also to the west and very conceivably telling of a shallowly buried granite top: these are both potential sources of hydrothermal fluids and quartz veining, and, almost certainly, of gold and other mineralization.

The sediments have an intensive network of fracture planes that penetrates the sediments, the potential for large low-grade gold deposits may well exist. If the gold were shown to be mostly tied up in the pyrite, and other sulphides, it would likely be very fine and would have escaped earlier workers, to whom only the coarser-grained vein gold would have been accessible.

Reconnaissance sampling was done in selected areas of the previously held Cresta License area. The results of this reconnaissance sampling are tabulated.

Table 4 – Reconnaissance Samples Collected Showing Anomalous Values

Sample Number	Description	Au ppm	Cu ppm	Pb ppm	Zn ppm	As ppm
MAF 1	1m wide vein system with pyrite. Mafuga South Target.	0.04		59		
MAF 2	Quartzite host to vein system With limonite? After pyrite	0.03		113		
MAF 3	Sediment sample from old adit. Minor quartz veining	0.02				35
MAF 4	1m- thick pyrite quartz vein with pyrite from old adit	0.868	139			2086
MAF 5	Limonitic quartzite with boxwork old adit.	0.05				413
MAF 6	Richly pyritic quartzite near forestry saw yard	0.030				110
MAF 7	Quartzite with no visible pyrite	0.030				
MAF 8	Fault Breccia same locality as MAF 7	0.02			113	
MAF 9	Vein Filling with Fe & Mn same locality as MAF 7 & 8	0.04			276	
MAF 10	Fault Breccia with conspicuous Fe & Mn	0.04			112	
MAF 11	Gossanous breccia South of above locality	0.07				
MAF 12	Veins with Mn, old quarry NW corner of license area	0.03		138		
MAF 13	Limonite after Pyrite in phyllites in centre of License area	0.02			114	
MAF 14	Black pyritic carbonaceous shale	0.05				

1.6 Physiography

1.6.1 Topography

Kabale District is often referred to as the “Switzerland of Africa.” The high peaks of its mountainous topography can reach 2,600 meters before plunging down steep slopes into narrow valleys or broad papyrus swamps which are generally at 1,200 meters Kabale is also renowned for its afro -mountain forests, which house a tremendous diversity of flora and fauna. In fact, much of the attention by outsiders on Kabale and Kisoro is due to the fact that half of the world’s remaining mountain gorillas (Gorilla gorilla beringei) reside within the tropical mountain forests of Bwindi Impenetrable National Park in Kabale and neighboring Mgahinga-Gorilla National Park in Kisoro (Wild and Mutebi 1996).

Outside the two parks, Kabale is dominated by an agrarian landscape – a patchwork of scattered field plots, well-terraced strips, fallow land, and grazing pastures that extend from the valley bottoms to the mountaintops. Interspersed among the fields and home-stead’s are (Acacia mearnsii) woodlots—the modern version of forests which many people perceive to have covered Kabale in the not so distant past—as well as individual trees of both a local and exotic origin (Levand 2002). These woodlots are primarily reserved for fire - wood, charcoal, and building for homestead purposes as well as for sale.

1.7 Climate and Vegetation

The district has an average temperature of 17.5°C which sometimes drops to 10°C at night. Rainfall averages 1000mm to 1480mm per annum.

Farmers in Kabale District cultivate a rich variety of crops that includes sorghum, millet, Irish potatoes, sweet potatoes, climbing beans, peas, maize, wheat, bananas, plantains, and cabbage. Farm plots tend to be small and scattered across the mountainous topography of hilltops, slopes, valleys within the slope, and valley bottoms. Planting takes place twice during the year in synchronicity with the bimodal rains that typically fall in March and between September and October. Hillsides are often terraced, or fitted with a ‘bund’ of earth along the bottom edge of the plot to contain topsoil from eroding to the plot below. To secure the bund or the edge of the terrace, farmers either allow trees, shrubs, and grasses to seed in or grow annually, or they plant vegetation. The long-handled hoe is the primary tool used in cultivation. To till the earth, farmers hoe up-slope, pulling the slice of topsoil downhill towards their feet.

Second only to national park tourism, agriculture is the main economic activity in Kabale and Kisoro districts (NEMA 1997). Most of the international and government activity in the two districts is geared toward alleviating the poverty and environmental degradation associated with basic livelihood demands and subsistence agriculture practices upon the rugged and steep terrain. As of 2002, there were over fifteen governmental and non-governmental organizations (NGOs) working on natural resource management within Kabale alone. A review of various government and NGO reports reveals that these organizations have identified deforestation, soil erosion and soil fertility decline, increasing

population pressure, land fragmentation, wood fuel scarcity, and loss of biological diversity to be key environmental problems facing the districts.

1.8 Cultural

Kabale is over populated and the land is heavily fragmented. This limits the agricultural output.

Kabale has no large scale industries apart from wine making and coffee processing which employ only a few people.

The mining of gold and wolfram, tin and stone quarrying has not been fully exploited.

The people in the area are from the Bakiga and Banyarwanda tribes each with their own language and customs. The main local languages in the area are Rukiga and Kinyarwanda.

2. General Geology

2.1 General Setting

2.1.1 Regional Geology

The Mafuga License is located in the northern half of the Great Lakes sub-province of
High Africa, one of the world's principal Precambrian orogenic-metallogenic provinces
(Figure 2). It consists of five spatial trends that were built during seven cycles. The oldest trend in the province is represented by the 2.2 Ga Transvaal sediments. The youngest trend is the Katangian geosyncline formed more than 500 Ma ago.

The Great Lakes sub-province extends 1,500 kilometres in a north-south direction from Lake Victoria to Kolwezi in the DRC, and 500 kilometres east-west between the Congo and Luala Rivers and the Great Lakes. The oldest rocks of the Kivu-Maniema Region are sediments belonging to the Ruzizian Series (Bontemps, 1983). These sediments were folded during the Ruzizian Orogeny (2.1 Ga) and intruded by granitic stocks localized in anticlinoria and gneissic and migmatitic contacts. A phase of erosion and sedimentation deposited shale, conglomerate, quartzite and sandstone belonging to the Burundian Series which was deformed during the Kibaran/Burundian Orogeny (1.3 Ga) (Figure 2). Calc-alkaline granites were again intruded in anticlinoria.

The Kivu-Maniema Region is predominately underlain by Precambrian schists intruded by granites. Metabasites interbedded with schists and dolerite occurs along the periphery of the batholiths and stocks. Most of the tin, tungsten and columbite-tantalite deposits of the region are related to post-tectonic granite batholiths and stocks, while the gold deposits occur in the synclinoria between the granites.

One of the tin mineralization belts is located to the western side of the province. The belt extends from Tshamaka through Punia – Kalima - Moga and south to Kampene. An eastern tin belt follows the contact of the Kasese batholith in the Lulingu and Ona Districts.

A west-northwest trending gold belt that connects Kima with Shabunda occurs between the tin belts. The gold belt separates into two branches with the eastern branch passing through the Lugushwa and Kamituga Districts and the western branch bifurcating southeast of the batholith into the Namoya District. Just west of the Great Lakes is a very long and narrow gold belt, which trends east-west in its northern portion, in the Kilo-Moto Area, near the *Banro Corporation – Twangiza Mine* -Congo/Sudan border and then south along the Great Lakes to Katanga. The Twangiza deposit is located within this belt (Watts *et al*, 1989).

The Proterozoic lithologies (Karagwe-Ankolean System) that occur in the area consist of meta-sediments, mainly shale's, phyllites, mica schists, quartzites and conglomerates. Ironstone lenses, commonly specular and sometimes massive occur in these lithologies. These rocks are intruded by various granites of post Karagwe-Ankolean age and a Pleistocene to Recent alkaline volcanic suite. The large Rubanda Granite proximal to the concession is a G4 or Alkaline Tin Type Granite. To the east and north, stream drainage patterns suggest the existence of buried plutons, as at Shebeya Hill. The tectonic grain of the area comprises northwest-southeast trending fold axis and north-south to northeast-southwest trending sinistral faults, as well as east-west trending dextral faults. Laterite profiles are well developed.

2.2.2 Regional Metallogeny

The Kabale gold district lies on the western fringe of the Uganda Trough. This area has been recognized as a Proterozoic magmatic arc terrain with similarities to Andean geological environments. The district forms a part of the much larger Kivu Au-Sn-Ta Mineral Province of which the Twangiza Gold Deposit in the Congo is the main "type" deposit.

The historical data for the Twangiza Property indicates good potential for adding significant resources to the already defined multi-million ounce gold resource, associated with the Proterozoic sediments of the Kibaran Metallogenic Province (KMP). The gold mineralization is interpreted to be related to the same suite of

intrusions responsible for the widespread Sn and W mineralization in the KMP. This class of gold deposit has been recognised in many parts of the world, and is known to have the potential for hosting world-class resources.

. It is probable that the Lake Rukwa Shear Zone, a NW trending transform fault, exerts some sort of control on the Kivu Province mineralization as it does the Mpanda and Lupa Gold Areas further to the south-east in Tanzania. The chances for finding epithermal, mesothermal or porphyry style gold mineralization on the Kabale Exploration License EL 0103 is excellent.

3. Detailed Geology

3.1 Sedimentary Rocks

The Sedimentary rocks consist of a well-bedded, fairly monotonous, sequence of argillite's and arenites, which are weakly, metamorphosed. Local and higher grade metamorphism is associated with intrusive contacts. The argillites consist of mudstone, shale's and phyllites while siltstone, sandstone quartzite's, grit and conglomerates make up the arenaceous group.

The succession is isoclinally folded and consists of alternating antiforms and synforms with axes trending NW. Coarser-grained sedimentary interbeds consisting of sandstones, quartzite, grits and conglomerate with hematite horizons appear to dominate the synforms while finer-grained mudstones and shale's, occupy the anti forms.

Alternating sequences of sandstone, orthoquartzite, mudstone and shale dominate the western part of the property. The dominant lithologies in the eastern part of the property are phyllites, siltstones and mudstones with beds of pebble and breccia conglomerates, sandstone and grits.
The pebble and breccia bodies comprise of matrix supported angular to sub angular fragments of weakly metamorphosed sediments and quartz. The breccia bodies locally grade into grit or pebbly sandstone. The pebble and breccia bodies are typically iron oxide cemented.

3.2 Intrusive / Extrusive Igneous Rocks

The sedimentary sequence is intruded by the Rubanda Granite (Tin type) west of the license area. Recent to Pleistocene Alkaline Rift volcanic occur South West of the property. Small eruptions of limburgitic and olivine leucite lavas occur proximal to the Rubanda Granite.

Structures that localised the emplacement of the Rubanda Granite appear to have been reactivated during the recent alkali volcanic event, as both groups of intrusive rocks share the same tectonic environment (ENE fault control).

3.3 Quartz Veins

Three types of quartz veins were recognised in the field: quartz – iron oxide veins and breccias, quartz limonite veins and breccias, vitreous to crystalline quartz vein stock work. The quartz – iron oxide and quartz – limonite veins are typically fractured or shattered or intensely sheared and brecciated. The two varieties are crystalline and milky white and occasionally vitreous. Minor grey to dark grey varieties are observed in the field.

3. Structural Geology

Fracturing and faulting and the orientation of the sedimentary beds control the structural trends on the license. The bedding of the sediments have a general WNW to NNW strike with dip values of 60°and 80 ° directed either to the NE or SW. Beds with ENE orientation have been observed in some parts of the license area.

Four major fault directions were interpreted from aerial photographs and satellite images. These trends are NE, NNW –N, NW and E-W and are generally of regional extent. NE –SW and EW trending faults are major sets and appear to control the mineralisation on the property. These structural directions were observed in the field. Exposed faults show dips that are predominantly very steep to vertical.

The drainage patterns and the geomorphology tend to follow these structural orientations.

4. Metamorphism

The rocks show regional lower greenschist metamorphism resulting in the formation of muscovite and sericite. There is a locally developed hydrothermal alteration which resulted in sericitasion, silicification and pyritisation.

The hydrothermal alteration is more significant in terms of mineral deposition. Siltstone, mudstone and phyllites are locally silicified and hydrothermally altered. The rocks are tectonically brecciated resulting in favourable sites for mineral deposition. Silicification of siltstone, mudstone and phyllites produce a dense brittle rock. The alteration assemblage is best developed in phyllites and mudstone comprising sericite quartz and pyrite. This alteration is restricted to pebble breccia bodies and grits.

In some areas stockwork of quartz stringers and veins, some carrying sulphides and iron oxides are locally developed within carbonaceous phyllites and mudstones.

5. Economic Geology

Included is a listing of economic minerals occurring in Kabale District as reported in the literature. A listing of the minerals follows.

5.1 Bismuth (bismutite): Bismuth is a metal obtained from the mineral bismutite. In southwest Uganda it occurs in association with native bismuth, gold and wolframite at Rwanzu, Kitahurira and Kitwa in Kisoro, Kabale and Kanungu districts respectively. Only the Rwanzu deposit was has been mined. Bismutite also occurs in pegmatite deposits at Muramba, Kyambeya and Rwenkuba in Kanungu district.

5.2 Gold: Kigezi goldfield and Ankole tin field - gold occurrence in this area appears to be part of the larger Kivu gold-tin-tantalum mineral province. This goldfield has contributed about 10% of the country's gold production in the past, with most gold won by artisans from alluvial material. Gold potential lies in the identification of primary gold.

Besides gold; beryl, cassiterite, wolframite and columbite-tantalite occur and have been worked. Bismutite, zircon, and chalcopyrite have been reported to occur in the area. From airborne geophysical survey results, magnetic bodies that could host nickel similar to the Kabanga deposit in Tanzania, are likely to be present in the area.

This area is a very promising target because it is part of the huge mineralized belt of rocks called the Kibaran System (called Karagwe-Ankolean rocks in Uganda) which stretches from Katanga through Northern Tanzania to Uganda.

Gold is widely distributed in Uganda but has been worked in only a few areas: Buhweju and Kyamuhunga in Bushenyi district, many localities in Kabale, Kisoro and Kanungu districts, Tira and Amonikakine in Busia district, and more recently in Kamalenge, Mubende district and many localities in Karamoja region. With the exception of Tira and Amonikakine where gold was recovered from reefs (hard rock), most of the gold was recovered from alluvial material.

Most gold production has been by small producers who include licensed miners and illegal miners or artisans. Production statistics from this class of miners is only indicative given the fact that most operators are not licensed and even the licensed ones tend to under-declare hence most of the gold is transacted through dubious channels. This not withstanding, the recorded production between 1931 and 2001 was approximately 6.5 tons of which the largest proportion came from Buhweju, followed by Tira.

5.3 Iron Ore: Iron ore occurs as two types of minerals: hematite and magnetite. Hematite of high quality (90 - 98% Fe_2O_3) occurs in Muko area in Kabale and Kisoro districts with total resources in excess of 50 million tons, which contains negligible sulphur, phosphorus and titanium. Similar hematite iron ore with a resource of 2 million tons occurs at Mugabuzi in Mbarara district. 21. Magnetite is associated with the carbonatite complexes (carbonatite volcanoes) at Sukulu and Bukusu in Tororo and Mbale districts respectively. At Sukulu,
magnetite occurs in residual soils with apatite (phosphate). A resource of 45 million tons averaging 62% Fe, 2.6% P_2O_5 and 0.9% TiO_2 has been estimated.

Within Bukusu, a number of lenses of massive magnetite occur in igneous rocks (syenite) and as residual soils with vermiculite. 23 million tons has been estimated at Nakhupa, Nangalwe and Surumbusa sites, while Namekhara contains an estimated resource of 18 million tons with 13% TiO_2. Other carbonatites whose iron ore potential has not been tested are Napak and Toror in Moroto and Kotido districts respectively.

There has been very limited production of iron ore in Uganda to date it has been mined mainly for use as an additive in the steel scrap smelting in Jinja and for cement manufacture by Hima Cement.

5.4 Lithium: Lithium minerals occur in pegmatite's in Mubende, Mukono, Ntungamo, Kabale, Kanungu and Rukungiri districts, but have been exploited only from the Nyabushenyi (Ntungamo) and Mbale Estate (Mubende) pegmatites. Production of amblygonite (the Lithium ore) for 20 years to 1969 was only 777 tons. Most of the pegmatites are small and of irregular bodies, which mitigates against large scale exploitation, but is well suited to small-scale production by locals entrepreneurs.

5.5 Tin (cassiterite): Several tin deposits occur throughout southwest Uganda, and the tin-field extends southwest into Rwanda and Congo and northern Tanzania. The deposits are mainly of quartz-mica-cassiterite vein type in shales and sandstone host rocks (of the Karagwe-Ankolean System) closely associated with granitic bodies. The individual veins are thin (rarely more than a metre in width) irregular and of small tonnage potential. Stockworks and sheeted vein swarms occur at Rwaminyinya (Kisoro) and Kitezo (Mbarara) and these may have large tonnage potential.

Uganda's tin concentrate production 1927 to 2001 totalled about 13,000 tons. The bulk of this production came from hard rock deposits, with minor eluvial production and no alluvial production. The largest deposit was Mwerasandu (Ntungamo) and substantial production also came from Kikagati (Mbarara). Other producers were Rwaminyinya, Burama ridge (Kabale/Ntungamo), Ndaniyankoko (Mbarara), Kaina and Nyinamaherere (Ntungamo).

Uses: Tin is used mainly for coating iron/steel to minimized rusting and also making cans for the food industry.

5.6 Tungsten (wolframite/scheelite): Numerous tungsten deposits of quartz vein type occur in several places in southwest Uganda and in Mubende. The southwest deposits occur as vein swarms in graphitic sediments of the Karagwe-Ankolean System, closely associated with granitoid intrusions. They extend southwards into Rwanda and Congo.

The main deposits which have been mined are Nyamuliro (also called Bjordal Mine), Kirwa, Ruhija, Mutolere, Rwamanyinya and Bahati in Kabale and Kisoro districts. Others are Kyasampawo and Mbale Estate in Mubende and Buyaga in Rakai district.

Uganda's wolframite concentrate production from 1935 to 2001 has totalled over 5,000 tons. The Bjordal mine which has produced over 2,500 tons of concentrate, has a resource estimated at 10 million tons averaging 0.5%WO3, whereas Kirwa mine which was another large producer from late 1940's to 1979, has a resource estimated at 1.25 million tons averaging 0.19% WO3. Bjordal mine is currently being re-developed by M/S Krone Uganda Ltd. and production is up to 15 tons/month. *Uses:* Tungsten is mainly used in making armour plate in military equipment, manufacture of filaments for electric bulbs and in making tungsten-carbide for drilling bits.

5.7 Diamond: Potential for diamond exists in a number of areas in Uganda. Discovery of the diamonds in gravels occurred during prospecting for gold in Buhweju and a few small diamonds were found at Kibale in 1938 and Butale in 1956.

There has been no exploration for diamonds in recent years except for the work that carried out in the period 1965 - 1974. Although no economic deposits were discovered, small diamonds and indicator minerals were discovered in southern Karamoja, Katakwi and in the basic volcanics in Bushenyi, Kabale and Kisoro districts.

5.8 Style of Gold Mineralisation

Gold mineralisation in the bedrock appears to be largely associated with quartz veins and breccias. However, it is not all the quartz veins and breccias in the survey area that are auriferous. The most favoured style of mineralisation is the quartz vein and breccia that carries a significant amount of hematite. It would appear that this is the source rock for alluvial gold in the drainages in the Kirima Forest area.

Multiple, proximal quartz-hematite vein sources most likely exist in the upstream section of the Nyabirigita and the middle sections of the Bugwaza and Nyakatale

drainages. A similar style and nature of gold mineralisation is believed to exist in the Keerere -Rutooma catchment area.

The widths and strike extents of these auriferous quartz-hematite veins and breccias have not been well established. Vein structures observed have narrow widths and limited strike extent. It is unlikely that there could be other bedrock sources, since most favourable rock units with striking features and signatures associated with gold mineralisation that were sampled returned less encouraging gold values.

Controls on gold mineralisation in the Kirirna Forest and Keerere - Rutooma catchment areas are not well known and are yet to be well studied. What is known at this stage is that the auriferous quartz-hematite vein and breccia arc hosted in silicified and brecciated rocks (sandstone, grit) and in the highly fractured quartzite beds where they are typically fracture-filling.

The pyrite and base-metal sulphides appear not to be associated with the gold mineralisation event. Sulphidation may also be said to be a paragenetically late event. Samples of fresh sulphide-bearing rocks, gossans and limonite's after sulphides all returned gold values below the detection limit. Gossans may he indicative of base metal sulphide deposits, but in the Kirima target, they appear to have been derived from barren pyrite beds or pyritic sediments and ironstone lenses, in view of the assay results returned.

The timing of the hydrothermal and tectonic brecciation in relation to gold-quartz vein emplacement is not well understood. It is however, likely to be related to the emplacement of the Rubanda granite.

Field evidences that may lead to the detection of epithermal- type sediment-hosted disseminated micron gold and epithermal-style vein gold mineralisation, which could be linked to the Pleistocene volcanic event are lacking.

Shear-zone hosted auriferous quartz veins and fracture-filled gold-quartz veins are the main styles of gold mineralisation observed in the licenses. These mineralised vein structures arc narrow with limited strike extent, probably in the range of 50 to 200 micron. A swarm of' such auriferous vein structures hosted in shear zone with considerable width and strike extent could potentially hold a significant gold resource. The potential for such dyke swarms may exist in the Kirima and Keerere — Rutoma catchment areas. Surface geological mapping and rock geochemistry can hardly detect such swarms if they are sub outcropping.

6 Detailed 36 Month Work Program – Planning and Budget

Previous prospecting and grab samples taken from the area under application contained gold and there is positive evidence that the area contains gold

mineralisation. An outcrop of black shale containing pyrite was found and the hydrothermal model of gold mineralisation of the proposed license area is further supported by the alluvial gold won from the streams in the past.

Fieldwork will be started in the last quarter of 2006 when the company will begin prospecting operations. The total field exploration team will comprise of three (3) geologists and one technical assistant / senior mineral prospector. Two geologists will carry out the geological mapping; one for Mafuga North and one for Mafuga South and the other will oversee the pitting and sampling programme, assisted by the field assistant. These will be complemented by at least 16 casual labourers including 4 forest rangers and 2 security people who will keep day and night guard over the field office and store during this period.

Two field vehicles will be needed for the first about 4 and half weeks and thereafter one vehicle should suffice. This will be one vehicle for the two teams working in Mafuga North and one for those working in Mafuga South. For the first week, the two mapping and two sampling teams will work together in order that a similarity of methodologies and approach to work is enabled.

Each of the geological mapping teams will have two casual labourers to carry samples and clear the way where necessary in addition to a forest ranger. There will be two pitting teams with 3 casual labourers each and a forest ranger attached to each. It is estimated that the pitting program will take 24 working days or in total a period of about 4 and a half weeks. This will be due to the estimated long distances over hostile terrain over which the teams are likely to walk to and fro the selected knick points where pit digging and sampling is to be carried out. Geological mapping is estimated to take 100 working days or about 20 weeks.

6.1 Heavy mineral concentrate prospecting – Alluvium sampling

Pits will be dug to weathered bedrock (or to full depth of accessible sediment) and sampled. Sampling will concentrate on the basal alluvium horizon and uneven upper surface of the (weathered) bedrock where the heavy minerals are most likely to be concentrated and/or trapped. At least 30 kg of this basal alluvium will be panned to a concentrate of about 100mg and bagged. Where deemed necessary, time allowing, an extra at least 30 kg will be panned and concentrated to provide a kind of duplicate for that particular sampling point. It is therefore estimated that at least 72-bagged concentrates will be collected at the end of the pitting and sampling program (required are 64 bagged concentrates)

6.2 Geological mapping

The primary aim of mapping the area is to develop a clear interpretation of the local crosscutting structural features and the occurrence of quartz-veins and

associated mineralised zones, comprising a system of faults and shear zones, particularly noticeable in the Mafuga area. It is believed that these faults, structural features and shear zones were conduits for hydrothermal mineralisation in the roof-zone of the Rubanda granite, which appears to extend at some modest depth beneath much of the Mafuga Forest Area and being manifested, it is believed, in a swarm of auriferous quartz-veins in the Karagwe-Ankolean phyllites and quartzite's.

Detailed field mapping of all structural features, major lithologies and occurrence of quartz veins over the main target areas will be done. The target areas are defined by two distinct groups of structurally controlled auriferous ore bodies that were roughly delineated within Mafuga North and Mafuga South. In Mafuga North, three east-north-east striking zones of en-echelon vein groups have been delineated with strike lengths of about 3km and gossan will be mapped along their full strike. In Mafuga South, the more widespread swarm of intersecting east-northeast and southeast striking veins that have been delineated, through earlier work (Aerial photography and satellite imagery studies), having variable strike lengths up to 5km and gossan will also be fully mapped. Any previously unidentified ore bodies and/or gossan will of course also be fully mapped and representative rock samples taken as well.

Enlarged 1:10,000 Topographic-maps will be used as base maps for the field mapping. Larger 1:2500 scale maps for specific areas will be produced to record details that are significant but are too small to be accurately represented at 1:10,000 scales. All sample locations, and other structural features, etc., will be marked. Information interpreted from Landsat TM data will also be used during mapping to confirm the structural interpretation. It is recommended that a rock sample be collected at all mineralogical interesting locations as well as at every 1km along the strike of a mineralised body.

We anticipate that the costs to do this exploration for the following12 months would be as follows.

6.3.1 Salaries

3 Geologists (3 X 120,000/= X 26days X 12 months) =	112,320,000/=
1 Technical Field Assistant (1 x 70,000/= x 26 days x 12 months) =	21,840,000/=
2 Drivers (2 X 12,600/= X 26 days X 12 months) =	7,862,400/=
16 Casual Labourers (16 X 4000/= X 26 days X 12 months) =	19,968,000/=
Salary Sub Total	140,150,400/=

6.3.2 Vehicles and Fuel

One vehicle will be allocated to this project initially. As the program progresses an additional vehicle may be required. Estimating vehicle hire and fuel.

Vehicle Hire (1X 100,000/= X 30 Days X 12 Months)	36,000,000

Vehicles and Fuel Sub Total
36,000,000

6.3.3 Accommodation

3 Geologists (2X30,000/= X 30 Days X 12 Months)=	21, 6000,000
2 Drivers (2 X 30,000/= X30 Days X 12 Months) =	21, 6000,000
Accommodation Sub Total	43,200,000/=

6.3.4 Sampling and Assaying

64 Stream Sediment samples @ 36000/= per sample = 2,304,000/=

Sampling and Assaying Sub Total
2,304,000/=

6.3.5 Remote Sensing and Satellite Imagery Studies

The company has already purchased landsat remote sensing spectral images of the area of the proposed SEPL and had the images ortho corrected and interpreted. The total cost to date for this work was 2,880,000/=.

Sub Total Remote Sensing and Satellite Imagery Studies.
5,760,000/=

6.3.6 Report Compilation Costs

After we have completed phase one of our exploration program. A geological and geochemical report including maps will be submitted. It is estimated that this would cost 3,600,000/=

Sub Total Report Compilation Costs 3,
6000, 000/=

6.3.7 Contingent Liabilities

In the event of the company having to pay expenses such as claims lodged by land occupiers, administration expenses, and other unforeseen expenditure a contingent liability budget of 15,000,000/= is included

Sub Total Contingent Liabilities **15,000,000/=**

Table 5 Summary of Total Expenditure for 12 Month Program

Description	Costs in Uganda Shillings	Cost in US Dollars
Salaries	161,990,400	95288
Vehicles and fuel	36,000,000	21176
Accommodation	43,200,000	25,412
Sampling and Assays	2,304,000	1355
Remote Sensing Images	5,760,000	3,388
Report Compilation	3,600,000	2117
Contingencies	15,000,000	8823
Grand Total	267,854,400	157,559

Should the geochemical survey and geological mapping indicate positive results for gold, further geophysical surveys to delineate the ore body will be considered. If there is an indication of a medium to large deposit drill targets will be defined and we could proceed to stage two, three and four of the exploration program.

6.3.8 Stage 2 Exploration

After completion of the abovementioned work program the company will proceed to the next stage of exploration. This will comprise the positive identification of drill targets. Detailed trenching pitting sampling and analysis will be carried out. This work will take about six months to complete.

Providing the results are positive we will proceed to stage three of the program.

6.3.9 Stage 3 Preliminary Drilling

From the previous work done we will be in a position to site potential borehole sites and commence with phase one drilling.

If the geological model holds and the boreholes intersect the required mineralisation and the results indicate economic grades we can continue with infill drilling to prove the ore body.

6.3.10 Stage 4 Infill Drilling

At this stage of exploration we should be in a position to have an indicated resource. The purpose of this fourth stage of exploration would be to move from

and indicated to a measured resource. Once we have completed this stage of the work we will be in a position to start a pre feasibility study.

Table 6 Proposed Exploration Program

	Stage 1 Exploration	Stage 2 Exploration	Stage 3 Exploration	Stage 4 Exploration
Description of work	Satellite Image studies Geochemistry and geophysics	1. Geological Mapping	Definition of preliminary Drill Targets	Phase II Drilling
Time Frame in Months		2. Limited Stream Sediment Samples	Phase I Drilling	Phase III Drilling
		3. Detailed Geological Work		
		4. Detailed Geophysical Work		
		5. Detailed Geochemical Work		
		6. Detailed Sampling		
		7. Detailed Trenching		
		8. Drill Target Identification		
Time Frame Total 36 Months	6 Months	12 months	6Months	12Months
Cost USD Total Cost $1,142,559	10,000	157,559	100,00	875,000

The above table indicates the budget estimate and time frame for doing exploration in the Mafuga Forest. As we progress with our work, the program

may change. We intend communicating any changes to our program by way of our quarterly reports to the Mining Commissioner

The author considers that the proposed work program and budget are adequate and achievable and are consistent with the resource and exploration potential of the Mafuga Forest EL 0103 license area.

7 Environmental Project Brief for Mineral Exploration in Mafuga Forest Reserve

This project brief is prepared in accordance with the reg. 64 of the Mining Regulations 2004
The following notification of intended exploration activities in Kabale district is presented and formatted in accordance with Requirements for Project Brief/EIA published by NEMA and the Guidelines for Environment Impact Assessment in Uganda July 1997.

(a) Name and Title, Address of Developer

The developer in the case of this project brief is De Villiers Exploration Limited (Devex). The company operates from its offices at Plot 67 Kampala Road, Entebbe Lower Town, Entebbe. PO Box 435 Entebbe. Tel 041-322380. The company has been granted an Investment License from the Uganda Investment Authority License number SSD/10488/43830.

(b) Name, Purpose, Objectives and Nature of Project, including attributes such as size of the project, activities that shall be undertaken during and after the establishment of the project, products and inputs, design, etc

Cresta Mining Company (U) Ltd. had previously been granted a special exclusive prospecting license SEPL 4604 for a 178-km2 area in the North of Kabale district, which includes the area of the Mafuga Forest Reserve in terms of the Mining Act.

De Villiers Exploration Limited successfully applied for an Exploration License covering this area. The company intends to search for mineable mineral occurrences in this area.

The proposed exploration activities will involve geological mapping, a stream sediment-sampling programme, rock sampling, and evaluation of the collected samples in the laboratory at Entebbe. Vehicular access will be by the existing road network. Most of the prospecting will be done on foot. The environmental impact will be minimal. Small excavations of less than one cubic meter may be necessary for the stream sediment-sampling programme. These will be filled in after taking the sample for analysis, in accordance with the attached company Environmental Policy.

These first phase exploration activities fall into category (a) of the National Environment Statute Part V-20.(1-5) and NEMA Guidelines for Environmental Impact Assessment in Uganda (1997) part 1, 1.4, and as such require only approval of the Project Brief without the need for Environmental Impact Assessment at this stage.

Should any mineral resource to interest be discovered as a result of the survey, a second Project Brief describing the second phase exploration work will be prepared at the appropriate time. Dependent upon the scope to proposed work of that phase, an EIA may be necessary if and when that stage is reached.

(c) Description of the proposed Project Site and its surrounding, and Alternative Sites, if any, where the project is to be located.

Surveying and sampling will be carried out as described above, over the whole 178-km2 area including the Mafuga forest. This forest reserve is not an indigenous forest, but a multi-species plantation of pines and eucalyptus. The forest is divided into two parts covering steep slopes of the hills and valleys northwest of Kabale. Selective felling and clear felling is at an advanced stage, and the large amount of timber is being erratically harvested in the area. The natural environment of this area has already been significantly altered by forestry and farming activities, and the small amount of surveying and soil sampling that is proposed will have no discernable effect on the nature of the area.

Work proposed will be on a very small scale, and dispersed over a wide area. Due care will be taken as outlined in our company Environmental Policy. There are no “alternative sites”, except perhaps to explore other interesting areas immediately south of and within the Bwindi Forest Reserve, a sensitive indigenous rain-forest environment that we have no wish to disturb.

(d) Description of how the proposed project site and its location conforms to existing laws, regulations and policies governing such projects and use of site/area proposed for its location.

The proposed work conforms to every development aspect of the Mining Act.

(e) Description of any other alternatives, which are being, considered (e.g., technology, construction and operation procedure, sources of materials, handling of waste, etc.)

Geological surveying and exploratory sampling has to be done according to certain well-established geoscientific procedures, and covering the whole area of interest. Therefore no alternatives are being considered. There are no construction operations involved, no materials will be introduced, and no waste will be produced.

(f) Any likely environmental impact that may arise due to implementing various phases/stages of the project and proposed mitigation measures thereto.

The Environmental Impact of the proposed first phase of the exploration work will be minimal or negligible, and work at this stage does not require Environmental Impact Assessment. In any event, company policy will be adhered to, and care will be taken not to disturb the national environment.

At latter stages carefully contained and managed phase 2 explorations and phase 3 mining work may be required, but only if mineable mineral reserves are found. In the event that the company wished to progress to these more advanced stages, separate project briefs and Environmental Impact Assessments will be prepared for phase 2, and an Environmental Impact Study will be prepared as part of an integrated development plan for phase 3 mining work, for NEMA approval well before any mining activities have begun.

(g) Any other information that may be useful in determining the level of EIA required.

Refer to the enclosed company Environmental and Social Policy and the relevant Statute and Guidelines.

Reference; regulation 5 of the Environmental Impact Assessment 1998.
– The Project Brief should state;

i. The nature of the project in accordance with the categories identified in the Third Schedule of the Statute.

The nature of the project is not listed in the Third Schedule, as it is not an activity that causes Environmental Impact. It is, however, the first early stage of mineral development / mining.
In the event that work progresses to the later stages of mineral development, appropriate Environmental Impact Assessment will be made;

ii. The projected area of land, air and water that may be affected

De Villiers Exploration Limited proposes to explore a 178 km^2 area, recording rock and soil characteristics neither land, nor air or water will be adversely affected;

iii. The activities that shall be undertaken during and after the development

Activities to be undertaken are described in the above paragraphs. On the completion of phase one exploration work the collected data will be evaluated,

and if indicators of substantial mineral reserves are found, the company may apply for permit for more intensive exploration work and possible mining in the area, under separate Project Brief and Environmental Studies at the appropriate time;

iv. The design of the project

There is no “design” as such, except to take samples from points and areas of interest and to analyse the collected data.

v. The materials that the project shall use, including both construction materials and inputs.

There will be no construction work or introduction of any new materials to the area in connection with the proposed phase 1 exploration work;

vi. The possible products and by-products, including waste generation of the project.

No products or by- products or wastes will be created at this stage of work;

vii. The number of people that the project will employ and the economic and social benefits to the local community and the nation at large.

Phase 1 exploration work at Mafuga forest will employ one geologist, one geophysicist, and 3-6 local labourers. Apart from benefit to a small number of part time employees there are no economic or social benefits at this stage, however, should the project advance to phase 2 exploration and phase 3 mining work, the economic and social benefit to Kabale district will be substantial. (See DE VILLIERS EXPLORATION LIMITED Environmental and Social Policy) Available on request.

viii. The environmental effects of the materials, methods, products and by-products of the project, and how they will be eliminated or mitigated, and (ix) any other matter, which may be required by the authority.

Environmental effects, as already stated, will be minimal and negligible.

As the De Villiers Exploration director in charge Environmental Policy and affairs, I have studied the Statute and Guidelines carefully and also viewed them in the context of the Mining Act.

It is clear the Project Brief approval is all that is required for any first phase exploration work as described, and we look forward to obtaining NEMA endorsement.

8 Results

8.1 Photo Geology and Satellite Image Studies

Photo geological studies, Satellite image studies and interpretation indicate that the area has favourable structurally controlled potential for quartz vein and shear zone hosted gold deposits

8.2 Stream Sediment Sampling Gold Panning in River Beds

The stream sediment sampling program conducted by Cluff Mining positively identified the Mafuga Forest area as having good potential to host a major gold deposit. Follow up work was recommended by the geologist conducting the program.

Panning for gold in the river beds by Cresta Mining geologists gave positive results in most cases. The alluvium in the rivers is limited as the valleys are very narrow with limited amounts of alluvium. These valleys are still being worked by local artisinal miners who are recovering small amounts of gold from them. The alluvial gold is of limited interest as there is not a substantial amount of alluvium in the river beds to justify a major alluvial gold mining operation.

8.3 Reconnaissance Sampling

See previous work by De Villiers Exploration Limited **(section 1.5.4)**

Samples collected from a shallow adit sample MAF 4 (0.868 g/t Au, 2086 ppm As) and MAF 5 (0.05 g/t Au, 413 ppm As) show the highest As (Arsenic values) suggesting the presence of arsenopyrite in the mineralising fluids, and indicating the viability of using Arsenic as a “pathfinder” element for geochemical prospecting in this area of the license.

The gossan sample collected MAF 11 showed a strong gold anomaly (0.07 g/t) the arsenic in the sample was below the detection limit. The rock may be substantially leached and weathered with some secondary saprolitic enrichment of gold. The arsenic may have been leached out.

The quartzite that hosts the vein, also conspicuously pyritic is strongly anomalous for arsenic and positively indicates a gold-arsenic association.

None of the samples collected show gold values of economic grade. The gold norm for sedimentary rocks is (0.01 g/t). All the samples collected are above the gold norm.

Many old gold river workings are prevalent in the license area. Roadside geochemical sampling of soils, together with analysis for gold and arsenic should

delineate the most prospective areas for gold. Stream sediment sampling of the basal alluvium in the streams and careful control of panned heavy mineral concentrates for further analysis for gold and arsenic in the laboratory should achieve the same objective as the roadside geochemical program.

9 Mineral Potential

9.1 Deposit Model

The gold is associated with the Proterozoic sediments of the Kibaran Metallogenic Province (KMP). The gold mineralization is interpreted to be related to the same suite of intrusions responsible for the widespread Sn and W mineralization in the KMP. This class of gold deposit has been recognized in many parts of the world, and is known to have the potential for hosting world-class resources.

The geological model proposed herein is essentially a shear zone hosted, quartz 'Stockwork' deposit. It is apparent that several phases of mineralization are present in the Mafuga deposits. Field work and data collection will be required to separate these phases. Given the available data, DeVex is reasonably confident with the validity of the proposed model. Much more detailed work will be required to prove the validity of the model.

Gold mineralization is associated with quartz vein rich zones which occur close to the contact between psammitic and pelitic horizons and are dominantly confined in the more pelitic host rock. In view of the limited sampling that was done and to improve our geological understanding on the controls of mineralization we require more sampling and analysis. The data can be utilized in the construction of 3-dimensional models.

The sediments at the Mafuga Forest have been folded into a tight upright fold with proximal granite intrusive rocks (Rubanda Granite). It is thought that a hydrothermal event took place most likely when the sediments were folded. Structures and mineralized hydrothermal fluids are believed to have exploited the fractures and shear zones caused by this tectonic event. The upright tightly folded anticlines have been affected by a cross-folding resulting in a dome and basin fold pattern.

10 RECOMMENDATIONS

It is recommended that the exploration programme for 2006/2007 should focus on the following:

- Implement a soil sampling programme to delineate areas of known mineralization as well as prospect for areas of new mineralization.
- Geologically map the Mafuga Forest license area
- Follow up target areas delineated by the soil sampling program with pitting and trenching programs. Sample all trenches and pits dug. If the results justify.
- Ground geomagnetic (GM) and Induced Polarisation (IP) geophysics applications may be employed in selected areas.
- Diamond drilling to test soil geochemical anomalies in order to generate additional Inferred resources.
- Diamond drilling to upgrade Inferred Resources to the Indicated category.
- Completion of a scoping study to provide preliminary indications of the economic viability of the Indicated Resource.
- Commencement of a regional exploration in the Kabale and surrounding districts area, through the use of remote sensing, stream sediment sampling and soil geochemistry.

Appendix – 1 Photographic section

Nyamihove Peak Highest Peak in the License Area

Exposure of Bedrock Reddish Brown to Grey Phyllites Karagwe – Ankolean System

Strike 150° Dip 60° North East
Note joint planes cross cutting the bedding planes

0-1 **Brecciated Weathered Quartz Veins 1mm to 15cm**

0-2 Quartz Vein Showing Limonite Inclusions indicator mineral of sulphide mineralisation collected from Mafuga Forest

0-3 Mafuga Forest Reserve - Mature pine and eucalyptus trees

0-4 Zachari Baguma and Inocent in Mafuga Forest Reserve

0-5General View of Mafuga Forest Reserve

Appendix – 2 Map section

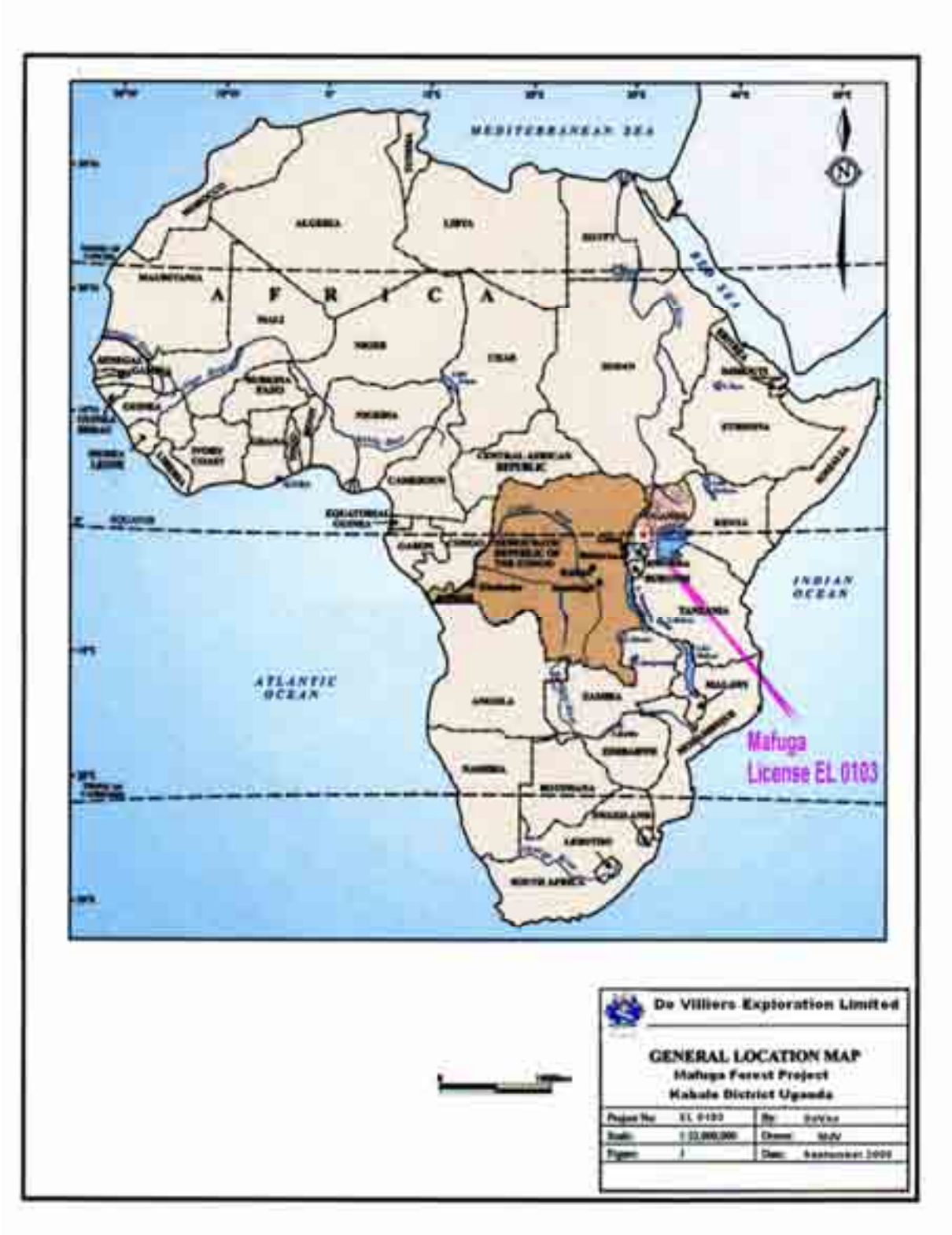


Figure 1 -1 General Location Map

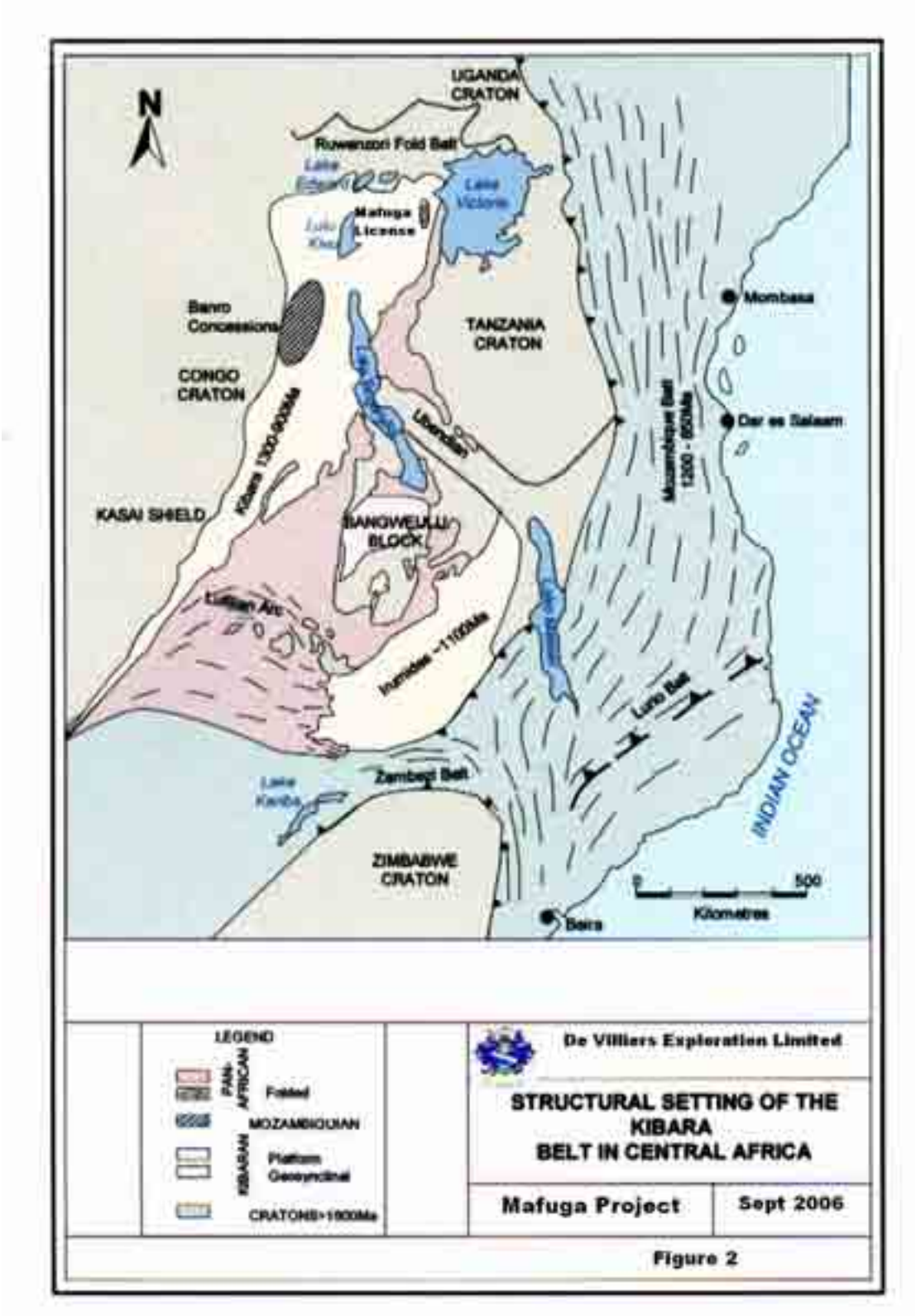


Figure 1- 2 Structural Setting Of The Kibaran Central Africa

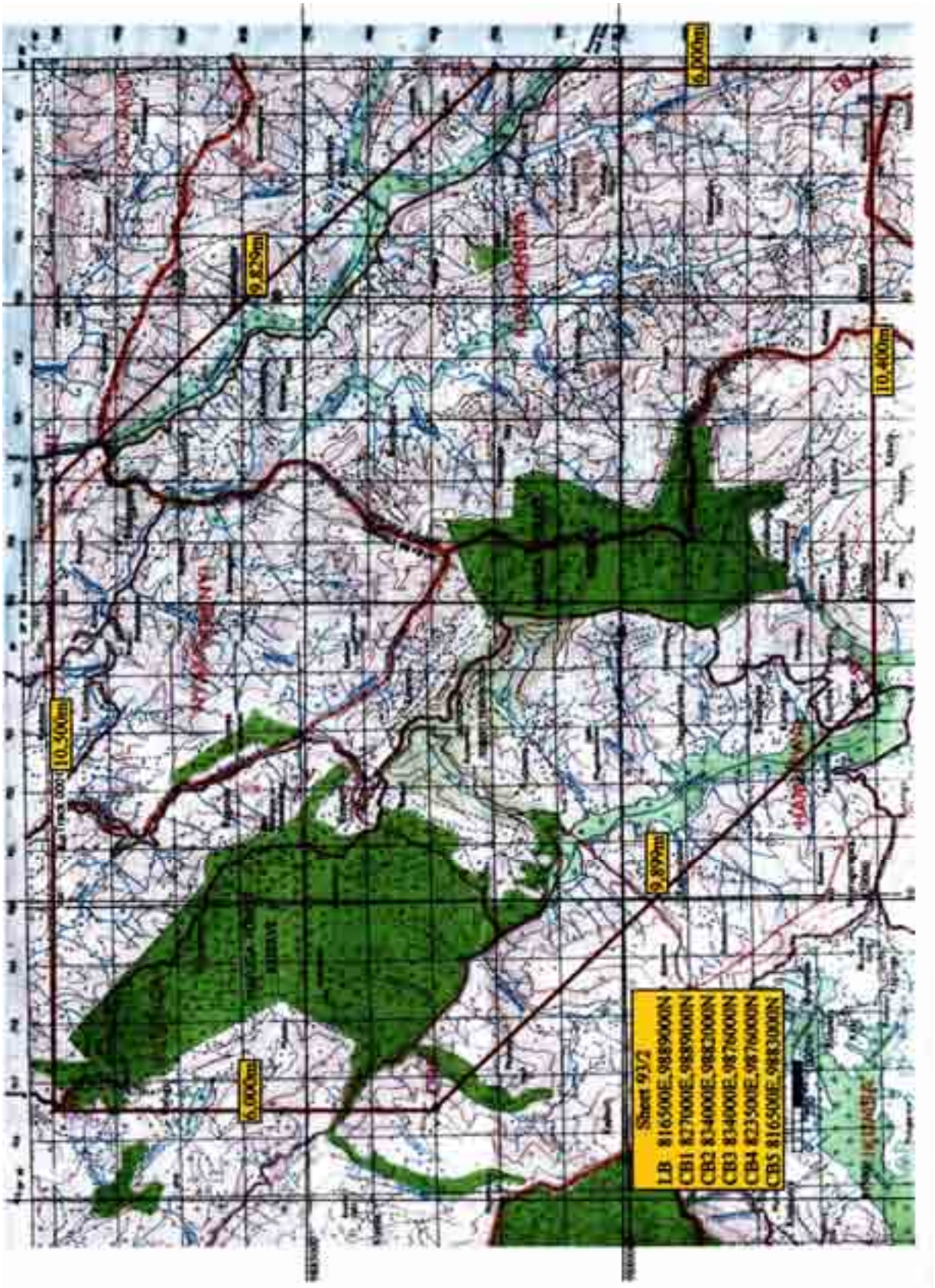


Figure 1-3 Claim Map Mafuga EL 0103

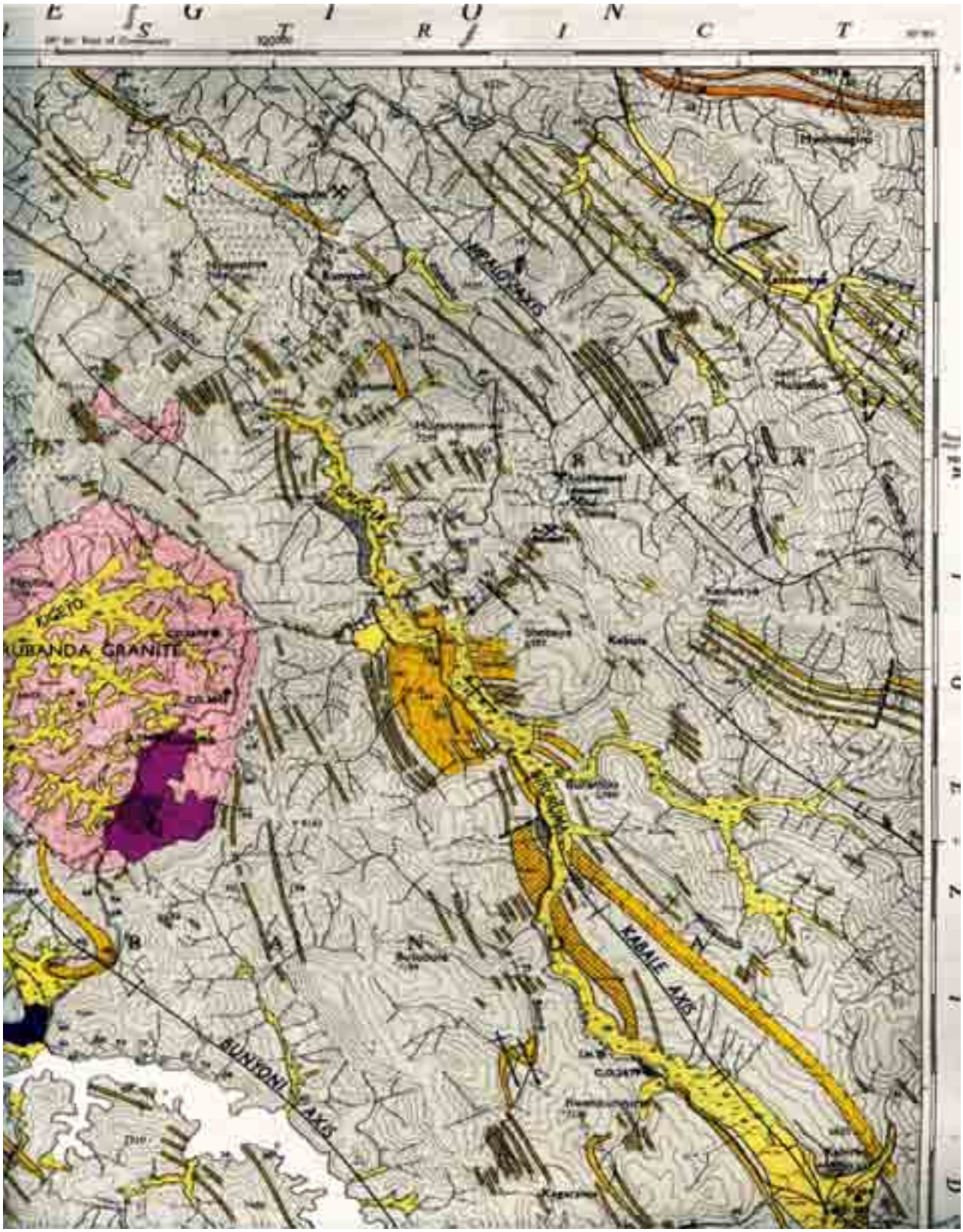


Figure 1-4 Geology Map Mafuga EL 0103

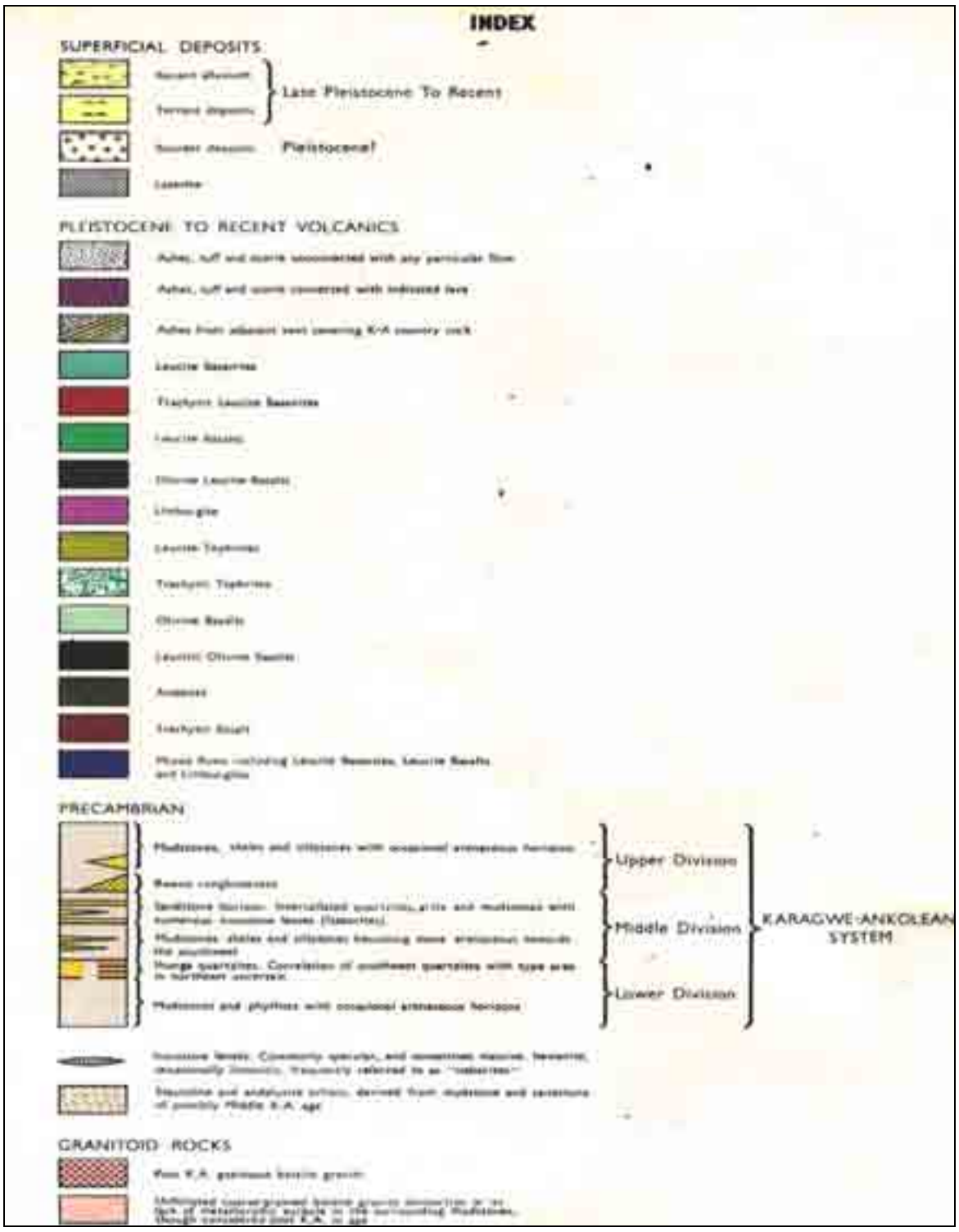


Figure 1-5 Geology Map Mafuga Legend EL 0103

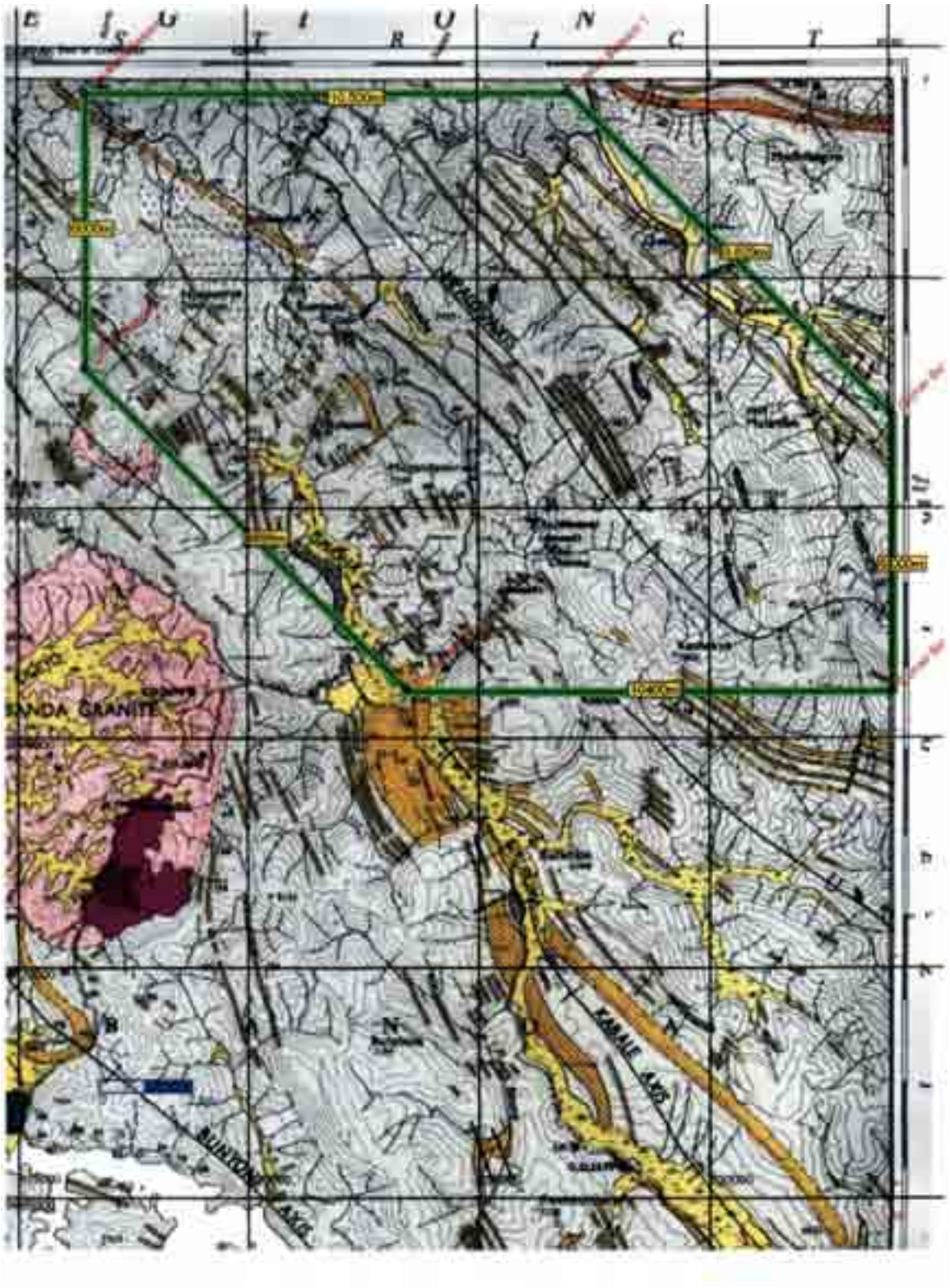


Figure 1 - 6 Geological Map Showing EL 0103 Area And UTM Grid