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VENEZUELAN GOLD INDUSTRY REPORT

I. INTRODUCTION

Venezuela became one of the world's major gold producers when stamp milling was introduced late in the last century in the El Callao area, a small portion of an extensive greenstone belt located in the Venezuelan Guayana. Production peaked in 1885, when 8,193 kg of gold were produced in Nacupay, Panama, Mocupia, Potosi, and El Callao mines, with grades often surpassing 1.5 oz/tonne.

In 1924 cyanide and flotation processes were introduced in Venezuela, and output from the area (Chile vein and Union mine) peaked at 4,566 in 1940. However, in 1926, oil production became the primary source of income in Venezuela, and so mining, as well as other sectors of the national economy, became progressively of less interest. In 1945, a new mining law was decreed, establishing a 60 percent income tax rate to mining activities, which prevented any new significant investment in mining, including gold, until recently.

The steps towards developing the country's gold potential are well under way. A new Income Tax Law (passed by the Venezuelan Congress in 1991), states that foreign and domestic entities (including branches, joint ventures and subsidiaries) are given the same tax treatment under Venezuelan law. The new Tax Law slashed taxes on mining activities from 60% to 30%, a rate considered internationally competitive. A new Mining Law has been in consideration in the Venezuelan Congress since 1983 but is not expected to be approved before last quarter of 1994.

Gold production in Venezuela has soared at least ten fold in the last five years. According to the last Consolidated Gold Fields evaluation, since 1988 Venezuela has been the 10th largest Western world producer and has one of the highest positive growth rates among South American countries. However, actual production bears no relation to its world class potential.

II. FOREIGN INVESTMENT

In Venezuela any individual or company, foreign or national, may own a gold mining concession. The mining sector has been declared a national priority for foreign investment promotion in Venezuela.

Venezuela's mining sector has been in a transition period for the past several years. Between irrational and rational exploitation, between the chaotic proliferation of small mining operations that cause enormous environmental damage and the orderly development of ecologically-sound mining programs.

Today, extensive improvements in infrastructure have improved

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access to the zone, and large areas have been made available to interested parties for exploration.

This transition has taken place in large part due to increased coordination between the Ministry of Energy and Mines and the Corporacion Venezolana de Guayana (CVG), the regional development authority and industrial holding company. New taxation, investment and mining legislation have encouraged a recent influx of foreign investment in the mining sector, most of it from Canada.

Since 1989, any foreign investment may be freely repatriated, regardless of the amount. Foreign business entities are taxed on income arising in Venezuela. The Dividend Tax has been eliminated. Investment tax credits at 10% of the investments in new fixed assets are now available to the mining industry. Foreign currency accounts can be opened in Venezuela. (Exchange rate is approximately Bs 100 per US dollar.)

The positive tax law changes have probably had more effect on foreign investment than any of the other reforms. In the case of the gold mining sector of the economy these reforms are responsible for the sudden interest by, foreign mining companies, many of which are Canadian. (See attached list.)

III. LEGAL FRAMEWORK

Venezuelan Law is based on the Latin system prevalent in the Spanish speaking countries of Latin America. The Ministry of Energy and Mines ("M.E.M") acts on behalf of the State under a 1945 Law, whereby all minerals in the country belong to the State. M.E.M issues concessions to parties and or companies under rules and conditions (that can be site specific) that give mining rights for specific minerals. These rights can be for "Soft Rock" (alluvial, eluvial and saprolitic) mining rights only or for the hardrock mining rights as well. It is generally understood that the holder of the soft rock rights will be granted the hard rocks rights if and when they are applied for.

In Bolivar State, M.E.M granted Corporacion Venezolana de Guayana (C.V.G.) the diamond and gold rights to both the soft and hardrock under "Decree 1409". C.V.G. is a government agency similar to a Crown Corporation in Canada, which has been given the task of regional development of Bolivar State. C.V.G. is involved in many aspects of the economy such as power generation and primary aluminium smelting. Since C.V.G. has the concession from M.E.M., it now leases out the mining rights to interested parties under its terms and conditions which in turn must comply with the terms agreed with CVG with the M.E.M.

Some of the lease's terms are: requirement of performance bonds; regulations which specify the timeframes allotted for exploration, the fulfillment of environment guarantees and the submission of timely progress reports.

Thus there are presently two routes in which exploration and exploitation rights to a mineral property can be held from the government.

- A) Concessions granted by the M.E.M: these are the mineral properties issued prior to decree 1409.
- B) Leases granted by C.V.G., under its concession from the M.E.M.

There has been considerable confusion over mineral rights in the Canadian investment community due to the fact that there are two ways to "hold the rights". In some cases rights to minerals are separated and rights to soft and hard rock are separated. It is unlikely that, the holder of gold and diamond rights would not receive copper rights when they were applied for, or that the holder of soft rock rights would not receive hard rock rights.

After much discussion and debate a new Mining Law has now been drafted and it is expected to be approved by January 1995. This new law will simplify and tighten some of the present rules regarding title and rights. The new law will fix royalties at 2%, streamline concessions granting process, formalize foreign participation and set special rules for gold mining.

IV. EXPLORATION AND MINING

Comparatively little systematic exploration work has been done in the mineral-rich Guayana region, and officials note that Venezuela cannot lay claim to an official figure of proven gold reserves. But knowledgeable analysts estimate that a potential of 10,000 mt of exploitable reserves lie in the Guayana region and that an annual production of 75 mt is feasible. In neighbouring Guyana, whose geological structure is identical to Venezuela's, a 300,000 oz/year start-up has demonstrated the economic potential of the gold-bearing laterite/saprolite overlying quartz vein/stockwork geological model. Guayana documented historical production indicates that it has the same huge potential as the greenstone belts of Eastern Canada and Western Australia. The Venezuelan greenstone belt is bounded by granitoids and gneisses of the Supamo Complex which is overlaid on the south side by flat continental sediments of the Roraima Group.

In addition to large alluvial and eluvial deposits, superficial mining has uncovered saprolitic and hard rock gold deposits. These include:

- 1) auriferous quartz veins,
- 2) brittle and ductile quartz veined auriferous shear zones,
and
- 3) auriferous quartz stockworks.

In 1985, C.V.G. founded TECMIN Co., a company devoted to mineral exploration. Based on geological data, C.V.G. has obtained 5 years exploration permits for several gold regions of prime exploration potential. Apart from TECMIN, there are other exploration companies working in the region, mostly Canadian, such as Major Drilling, Forage St Lambert, Bradley Bros, Advanced Drilling, Heath & Sherwood and geological and geophysical Consultants like Val d'Or Geophysics, Aerodat, Bercha and others.

Since the most recent gold rush started in 1991, large areas have been uncovered mostly by illegal miners known as "Garimpeiros" but in some cases better capitalized local mining concerns.

The Garimpeiros primarily use pumps and monitors to convey the ore material to recovery plants. When the Garimpeiros experience more consolidated ore such as quartz veining and or saprolitic conditions, they use hammer mills prior to sluicing and amalgamation. Only in the last four years has there been any concerned effort either by the owners or the government to fully monitor the mining operations.

Since world wide attention has been focused on the Kilometro 88 Gold District and El Callao Gold District in the Guayana region, the government authorities have adopted new environmental regulations in order to protect Venezuela's ecological system. For further information on environmental regulations please get in touch with: Dr Luis R. Padron, Director General, Environment Protection, Ministry of Environment, Torre sur, piso 19, Centro Simon Bolivar, Caracas, Venezuela.

V. PRIVATE CONCESSIONS

Legal mining activities are under way in some of the 367 concessions (including CVG and M.E.M) so far granted throughout the Venezuelan Guayana territory. In the past, mining methods in many of those concessions were primitive and their recovery rates usually very low.

Foreign companies are currently acquiring rights by either staking out new claims or joint venturing with the owners of existing claims. About 20 big foreign companies and joint ventures are very active now. These include: RTZ Mining and Exploration (England), Placer Dome (Canada), L.B Mining (U.S.A), Ivanhoe Capital Corporation (Canada), Goldfields (South Africa), Home Stake (U.S.A), Mineral Ecological Technology (England), Monarch (England), Carson Gold (Canada), Queenstake Resources (Canada), Cristallex International (Canada), Bolivar Goldfields (Canada), Venezuelan Goldfields (Canada), American Barrick (U.S.A), International Kengate (Canada), Cassandra Resources (Canada), Echo Bay Mines (Canada), Gold Reserve Corporation (U.S.A), Great Lake Minerals (Canada), Bema Gold Corporation (Canada), Boule Mining (U.S.A), Antilles Resources LTD, (U.S.A), YellowJack Resources (Canada) and others. (See Appendix)

Although a number of Canadian companies have been very active in Venezuela, it was the presence of Placer Dome that drew the first real interest to the Guayana Gold Region and the Km 88 district in particular.

Local owners of concessions currently include an assortment of farmers, entrepreneurs, politicians, military types, and even a consortium or co-operative of all of the above. Gradual and often expensive negotiations have allowed Canadian firms, to acquire the rights to various Km 88 and El Callao concessions. According to the information received from several reliable sources, Canadian investors and mining companies have expended close to 200 million U.S Dollars in the acquisition of mineral rights, but little or no systematic exploration has been carried out. In the last two years, over 75 exploration contracts have been signed with mining companies.

To date only two mines are in production, both in the gold-rich El Callao zone. One is the Minerven facility, wholly owned by the CVG, which is an underground mine that produces 2.9 MT of gold per year. The other is Revemin, a joint venture between Monarch and the CVG, which is recovering gold from the tailings of the Laguna mine. Revemin is a facility exploited between 1897 and the 1940s, which is producing 1.3 MT per year.

In 1991, CVG created a joint venture with Placer Dome to explore and mine Las Cristinas gold concessions including its very rich gold tailings. At present, extensive exploration work is being done.

Most foreign mining company's and investor's current strategy, is to carry out extensive exploration work in order to prove significant orebodies and then prepare a bankable feasibility study. Many companies are doing topographic surveying, line cutting, geological mapping, rock and soil sampling, ground VLF-EM, magnetometer surveys and soil geochemistry.

VI. OUTLOOK

The recent increases in official production figures are due, among other reasons to the international prices now being paid by the Central Bank of Venezuela, the only authorized purchaser. It sets its daily price on the Zurich and London Gold fix. The opening up to foreign investment, together with the country's new tax code that has reduced profit taxes from 60 percent to 30 percent, has encouraged foreign companies to invest.

The gold industry is experiencing a steep growth curve; indeed gold exploration has made mining the fastest growing sector of the GDP (+18% in 1992).

The expanding mining and peripheral industries provide more jobs for the miners, technicians and other professionals, as well as attracting foreign investors. Over the next three years this

activity is expected to generate from 10,000 to 20,000 new jobs and annual foreign exchange earnings of \$ US 1.8 billion.

Canadian companies related to the gold industry are very well perceived in Venezuela, and have been successful in the sale of mining equipment, consulting engineering and recently in the formation of joint ventures in both drilling and mining companies.

Selling goods and service to the mining sector in Venezuela, requires a prolonged marketing effort and generally cannot be successful without frequent trips to the market.

A company interested in selling to this market, should first undertake a preliminary market study. If the study shows good potential, a local agent, representative or distributor should be considered to help organize a marketing and sales plan and provide concerted and consistent local presence. Depending on the particular product or service characteristics, the company may also wish to consider local fabrication either through joint venturing or licensing or setting up a local service capability.

We strongly encourage Canadian companies to look closely at this market, it has great potential and opportunities.

Venezuela gold industry is starting a boom period, and there is no question that Canadian industry is playing and will continue to play a major role in its development.

The Commercial Section of the Canadian Embassy in Caracas can provide information on many of the questions a new company to Venezuela may have. The Embassy has good knowledge of the main players in the Venezuelan gold mining industry, agents and representatives, engineering firms, concessionaries, owners, contractors, consultants, local manufacturers, financing possibilities etc.

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See appendix for a directory of Venezuelan contacts in the mining sector.

Prepared by: Luis Romero, Senior Commercial Officer
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October, 1994.

VENEZUELAN MINING SECTOR

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---VENEZUELA MINING-LEGAL FRAMEWORK (DECREE 3821)

SINCE 1991, THERE HAS BEEN CONSIDERABLE CONFUSION OVE MINERAL RIGHTS IN THE VENEZUELA GUAYANA REGION, (IN PARTICULAR BOLIVAR STATE). THE REASON FOR CONFUSION WAS DUE TO THE FACT THAT THERE ARE TWO WAYS TO QUOTE HOLD MINING RIGHTS UNQUOTE: A) CONCESSIONS GRANTED BY THE MINISTRY OF ENERGY AND MINES--(MEM)--THESE ARE THE MINERAL PROPERTIES ISSUED PRIOR TO PRESIDENTIAL DECREE 1409 OF DEC 1991. AND B) LEASES GRANTED BY THE CORPORACION VENEZOLANA DE GUAYANA (CVG), UNDER UMBRELLA CONCESSION FROM THE MEM, AS REGULATED IN DECREE 1409.

2. AS OF 22DEC, THE MINISTERS COUNCIL (WITH THE APPROVAL OF THE PRESIDENT OF THE REPUBLIC) DICTATED DECREE 3821 BY WHICH CVG IS THE ONLY ENTITY AUTHORIZED TO LEASE OUT MINIG RIGHTS IN BOLIVAR STATE, TO INTERESTED PARTIES UNDER ITS TERMS AND CONDITIONS WHICH IN TURN MUST COMPLY WITH THE TERMS OF THE MINING LAW. OF EXTREME IMPORTANCE IS FACT THAT DECREE FULLY CLARIFIES LEGALITY OF LEASES GRANTED BY CVG UNDER DECREE 1409.



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1991 AND (B) LEASES GRANTED BY THE CORPORATION VENEZOLANA DE GUAYANA

(CVG), UNDER UMBRELLA CONCESSION FROM THE MEM, AS REGULATED IN DECREE

1409.

2. AS OF 20DEC, THE MINISTERS COUNCIL (WITH THE APPROVAL OF THE

PRESIDENT OF THE REPUBLIC) DICTATED DECREE 3821 BY WHICH CVG IS THE

ONLY ENTITY AUTHORIZED TO LEASE OUT MINING RIGHTS IN BOLIVAR STATE,

TO INTERESTED PARTIES UNDER ITS TERMS AND CONDITIONS WHICH IN TURN

MUST COMPLY WITH THE TERMS OF THE MINING LAW OF EXTREME IMPORTANCE

IS FACT THAT DECREE 1409 CLARIFIES LEGALITY OF LEASES GRANTED BY

CVG UNDER DECREE 1409.