PRE-FEASIBILITY REPORT
EL CASTILLO PROJECT,
DURANGO, MEXICO

FOR

MORGAIN MINERALS INC.

A.C.A. Howe International Limited
Toronto, Ontario

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SUMMARY

Introduction

At the request of Mr. Chester F. Millar, Chairman of Morgain Minerals Inc. ("Morgain"), A.C.A. Howe International Ltd, ("Howe") has been retained to prepare a Pre-Feasibility Report ("the Report") specific to the standards dictated by National Instrument 43-101 and Form 43-101F (Standards of Disclosure for Mineral Projects) with respect to the El Castillo Property located in Durango, Mexico ("the Property"). Howe previously prepared a Pre-Feasibility Report (Howe reports #845 and #850, dated September 2002 and January 2003 respectively) for the El Castillo project that was then known as the El Cairo project. Current Morgain management recently renamed the project after a local prominent landmark. This updated report incorporates the results of additional work that has been completed at the Castillo Project subsequent to the 2003 Howe report (#850). Howe understands that Morgain will use this report in support of financing activities related to the Property.

Property

The Property is located in the State of Durango, Mexico approximately 100 km north of the city of Durango. Access to the property is good with total driving time from Durango City varying between 1.5 and 2.0 hours depending on traffic. Driving distance to the Property is 117 km (measured from the center of Durango). The first 111 km are paved and the final six km consist of well-maintained gravel road.

The Property consists of four contiguous mining concessions totaling approximately 216.05 hectares ("Ha"). Morgain owns all four of these concessions outright. There is a 2.0% Net Smelter Royalty on one of the concessions but that concession is located to the east of the known mineralized area and is not presently known to contain mineralization.

Morgain also controls 835 Ha of surface rights in the El Castillo area. This is substantially larger than the area covered by Morgain's mineral rights and overlaps onto mineral rights controlled by another company. At the present time, Morgain is planning to install mine infrastructure (at least one leach pad) on ground for which they control the surface rights but not the mineral rights. Morgain is within their rights to do this since they control the surface but potential conflicts could arise at a later date if the owner of the mineral rights elects to conduct exploration in the area occupied by the leach pad.

History

The El Castillo Project was a grass roots discovery that resulted from a regional exploration program initiated by Battle Mountain Gold in 1995 to explore for sub-one gram Au per tonne bulk tonnage targets. Stream sediment geochemical surveys conducted by Battle Mountain outlined a significant gold geochemical anomaly in the El Castillo area which led to a successful program of drilling that resulted in delineation of the El Castillo gold resource by Battle Mountain. Battle Mountain completed 207 reverse-circulation ("RC") drillholes and six diamond drillholes ("DDH"). The six DDH were twins of six RC holes with DDH to confirm geological information and assay results.

Morgain acquired the Property in 2002. Work completed by Morgain includes six twin diamond drillholes, air-track drilling, rock ship sampling and bulk metallurgical testing. In 2003 Morgain completed six DDH totaling 820.0 m as twins of pre-existing RC holes. In early 2006 Morgain drilled 57 RC holes totaling 3,001 m to define a starter pit. Later in 2006, an additional 79 RC holes totaling 3,865 m were drilled to define additional tonnage for start-up.

Geology

The Property lies within the Altiplano Subprovince of the Sierra Madre Occidental. The Sierra Madre Occidental is a regionally extensive Eocene to Miocene volcanic field, which extends southeast from the U.S-Mexico border into Central Mexico. The Altiplano Subprovince is on the east flank the Sierra Madre Occidental and is comprised of Jurassic to Late Tertiary sedimentary and volcanic rocks. The Sierra Madre Occidental is recognized as a gold-copper metallogenic province with potential for porphyry copper-gold mineralization and epithermal gold mineralization related to areas of Tertiary volcanic and subvolcanic intrusive activity.

The Property is underlain by massive to porphyritic andesitic rocks of the Tertiary Lower Series Volcanics. These rocks have been intruded by dacite porphyry sills and dikes. The Lower Series Volcanics are unconformably overlain by felsic ignimbrites of the Upper Series Volcanics and Quaternary to recent rhyolite, conglomerate, and alluvium.

Gold mineralization on the Property is hosted by thinly-bedded volcaniclastic rocks of the Lower Volcanic Series and adjacent dacitic sills or dikes. The mineralized zones have locally been oxidized to depths greater than 200 m below surface but an average depth is more in the order of 150 m. Mineralization occurs in a series of northwest-trending lenses up to 150 m in length and 40 m in width.

Mineral Resource and Mineral Reserve Estimations

Several mineral resource and reserve estimates have produced for the Property.

- The first estimate was completed by Battle Mountain in 1999 (Schumacher, 1999);
- A second resource estimate was prepared by Howe in 2002 (Howe 2002) followed by two reserve statements (Howe, 2002 and 2003);
- Two subsequent resource estimates were prepared by Arizona-based Resource Modeling Incorporated (RMI, 2004b and 2004c).

The Battle Mountain and Resource Modeling Incorporated ("RMI") estimates are not 43-101-compliant and are therefore treated herein by Howe as "historic estimates". The 2002 Howe resource estimate is considered the current estimate for the Property since the estimate is CIM-based and 43-101-compliant and has not been superseded by a more recent 43-101-compliant estimate.

Mineral Resources

The historic Battle Mountain and RMI resource estimates are presented in Table 1-1, Table 1-2 and Table 1-3, and the current Howe resource estimate is presented in Table 1-4.

Table 1-1. Historic Battle Mountain resource estimate.

Au Cutoff Grade (g/t Au)	Average Au Grade (g/t)	Average Ag Grade (g/t)	Total Resource (000's Tonnes)
0.250	0.582	1.31	45,255
0.320	0.649	1.38	36,242
0.350	0.690	1.44	32,117
0.375	0.721	1.44	29,366
0.400	0.747	1.45	27,250

Table 1-2. Historic RMI measured and indicated resource.

Au Cutoff (g/t)	Oxide Material			Sulfide Material			Oxide + Sulfide Material		
	Tonnes (000)	Au (g/t)	Au Ozs (000)	Tonnes (000)	Au (g/t)	Au Ozs (000)	Tonnes (000)	Au (g/t)	Au Ozs (000)
0.30	20,596	0.79	523	14,519	0.70	327	35,115	0.75	850
0.40	17,462	0.87	488	12,026	0.77	298	29,488	0.83	786
0.50	14,203	0.96	438	8,848	0.88	250	23,051	0.93	689
0.60	10,761	1.10	381	6,302	1.02	207	17,063	1.07	587
0.70	8,544	1.22	335	4,454	1.18	169	12,998	1.21	504
0.80	6,875	1.33	294	3,185	1.35	138	10,060	1.34	432
0.90	5,351	1.47	253	2,416	1.52	118	7,767	1.49	371
1.00	4,238	1.61	219	1,848	1.69	100	6,086	1.63	320

Table 1-3. Historic RMI inferred resource.

Au Cutoff (g/t)	Oxide Material			Sulfide Material			Oxide+Sulfide Material		
	Tonnes (000)	Au (g/t)	Au Ozs (000)	Tonnes (000)	Au (g/t)	Au Ozs (000)	Tonnes (000)	Au (g/t)	Au Ozs (000)
0.30	10,726	0.46	159	7,625	0.45	110	18,351	0.46	269
0.40	5,132	0.59	97	3,371	0.60	65	8,503	0.59	162
0.50	2,874	0.72	67	1,912	0.73	45	4,786	0.72	111
0.60	1,734	0.83	46	1,123	0.86	31	2,857	0.84	77
0.70	1,070	0.95	33	666	1.00	21	1,736	0.97	54
0.80	738	1.05	25	366	1.22	14	1,104	1.11	39
0.90	493	1.15	18	241	1.42	11	734	1.24	29
1.00	315	1.27	13	195	1.53	10	510	1.37	22

Mineral Reserves

In 2002 Howe developed a reserve estimate for a 4,000,000 tpy operation using the 2002 Howe resource. The reserve estimate considered two scenarios:

1. A base case scenario considered to be the lowest capital and operating costs scenario that assumed run-of-mine ("ROM") ore be delivered direct to heap leach piles without crushing or agglomeration; and
2. A second scenario with higher capital and operating costs that assumed up to 30% of the ROM ore may be loose, fine-grained, clay-bearing material that may require agglomeration prior to being placed on the heap leach pads.

In 2003 Howe revised the reserve estimate for a reduced annual production to 1,000,000 tpy at a higher average grade. The 2002 and 2003 reserve estimates are presented in Table 1-1 and 1-6.

Both the 2002 and 2003 reserve estimates were developed on an open pit design that incorporated an overall pit slope of 45^{o}, a main ramp with an 8% grade, and a road allowance of 24 m, and bench height of 6 m was used for Whittle pit optimization purposes. Several optimum pit shells and production schedules were generated for several different gold prices (US$325, US$350, and US$375/oz Au) and cost scenarios. Tonnages of ore and waste were then calculated from the optimized pit shells.

Howe's 2002 base-case ROM scenario at US$325/oz Au contained 17.7 million tonnes of ore grading 0.88 g/t Au and 26.8 million tonnes of waste rock (6.1 million tonnes of rhyolite waste and 20.7 million tonnes of oxide waste) resulting in an average stripping ratio of 1.52 tonnes of waste per tonne of ore. It was determined that within the oxide waste there are 9.0 million tonnes grading 0.27 g/t Au that could be economically placed on the leach pads with as ROM material.

Table 1-4. Current Howe resource estimate.

	MEASURED					INDICATED					INFERRED				
Au (g/t) cut-off	**Tonnes (000)**	**Au (g/t)**	**Au Cut (g/t)**	**Ag (g/t)**	**Cu (%)**	**Tonnes (000)**	**Au (g/t)**	**Au Cut (g/t)**	**Ag (g/t)**	**Cu (%)**	**Tonnes (000)**	**Au (g/t)**	**Au Cut (g/t)**	**Ag (g/t)**	**Cu (%)**
5.000	76	6.473	3.311	2.94	0.042	31	7.188	3.168	2.32	0.046					
4.000	140	5.530	3.083	3.12	0.035	76	5.527	2.955	2.65	0.035					
3.000	286	4.448	2.792	3.34	0.030	166	4.378	2.669	2.33	0.027					
2.500	468	3.777	2.606	4.27	0.030	270	3.725	2.614	2.07	0.021					
2.00	844	3.081	2.331	4.41	0.029	413	3.213	2.466	1.94	0.018					
1.750	1,158	2.754	2.171	4.16	0.027	532	2.911	2.329	1.77	0.016					
1.500	1,649	2.415	1.978	3.87	0.026	671	2.644	2.182	2.02	0.016					
1.250	2,474	2.064	1.765	3.63	0.025	827	2.401	2.025	1.97	0.016	63	1.287	1.287	14.07	0.093
1.000	3,999	1.701	1.510	3.20	0.023	1,131	2.053	1.779	1.86	0.015	63	1.287	1.287	14.07	0.093
0.900	4,982	1.552	1.398	2.97	0.022	1,464	1.802	1.590	1.97	0.016	179	1.049	1.049	6.23	0.039
0.800	6,307	1.404	1.282	2.75	0.021	1,933	1.570	1.409	2.05	0.017	300	0.965	0.965	4.96	0.035
0.700	8,209	1.252	1.158	2.49	0.020	2,620	1.355	1.237	2.02	0.018	300	0.965	0.965	4.96	0.035
0.600	11,075	1.095	1.025	2.24	0.018	3,737	1.142	1.059	1.91	0.017	353	0.919	0.919	4.26	0.031
0.500	15,156	0.948	0.896	2.00	0.018	5,727	0.935	0.881	1.75	0.016	378	0.893	0.893	4.73	0.029
0.400	21,250	0.804	0.767	1.76	0.017	9,207	0.750	0.716	1.56	0.016	496	0.787	0.787	4.17	0.029
0.375	23,160	0.769	0.736	1.71	0.016	10,499	0.705	0.675	1.58	0.016	502	0.782	0.782	4.12	0.029
0.350	25,324	0.735	0.704	1.67	0.016	12,049	0.661	0.635	1.56	0.016	964	0.583	0.583	2.33	0.022
0.320	28,278	0.693	0.665	1.61	0.016	14,042	0.615	0.593	1.50	0.016	1,091	0.554	0.554	2.16	0.021
0.250	36,765	0.598	0.577	1.48	0.015	21,278	0.501	0.487	1.52	0.015	1,700	0.453	0.453	2.18	0.019
0.001	77,278	0.355	0.345	1.27	0.011	155,649	0.144	0.142	0.98	0.009	32,766	0.083	0.083	0.78	0.009

Table 1-5. Howe Whittle pit production schedules.

$325/oz Au Pits		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
ROM	Au (g/t)	1.34	0.84	0.74	0.67	0.73	0.88
0.36 g/t Au External Cutoff	ORE (tonnes)	4,000,000	4,000,000	4,000,000	4,000,000	1,657,148	17,657,148
	WASTE (tonnes)	7,746,821	4,904,184	6,164,469	5,373,171	2,627,284	26,815,929
	TOTAL (tonnes)	11,746,821	8,904,184	10,164,469	9,373,171	4,284,432	44,473,077
	WASTE/ORE RATIO	1.94	1.23	1.54	1.34	1.59	1.52
	CASH FLOW	$21,862,000	$8,462,000	$4,240,000	$2,683,000	$1,579,000	$38,826,000
ROM Crush/ Agglomerate	Au (g/t)	1.41	0.87	0.75	0.80		0.98
0.42 g/t Au External Cutoff	ORE (tonnes)	4,000,000	4,000,000	4,000,000	1,751,271		13,751,271
	WASTE (tonnes)	8,658,156	7,891,756	8,179,339	1,183,654		25,912,905
	TOTAL (tonnes)	12,658,156	11,891,756	12,179,339	2,934,925		39,664,176
	WASTE/ORE RATIO	2.16	1.97	2.04	0.68		1.88
	CASH FLOW	$21,595,000	$5,276,000	$1,210,000	$2,997,000		$31,078,000

$350z Au Pits		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	TOTAL
ROM	Au (g/t)	1.32	0.81	0.66	0.66	0.66	0.67	0.82
0.36 g/t Au External Cutoff	ORE (tonnes)	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	878,833	20,878,833
	WASTE (tonnes)	7,474,816	4,590,835	5,884,319	4,763,306	5,436,860	330,343	28,480,479
	TOTAL (tonnes)	11,474,816	8,590,835	9,884,319	8,763,306	9,436,860	1,209,176	49,359,312
	WASTE/ORE RATIO	1.87	1.15	1.47	1.19	1.36	0.38	1.36
	CASH FLOW	$24,735,000	$9,843,000	$3,725,000	$4,516,000	$4,104,000	$1,571,000	$48,494,000
ROM Crush/ Agglomerate	Au (g/t)	1.40	0.85	0.75	0.71			0.93
0.42 g/t Au External Cutoff	ORE (tonnes)	4,000,000	4,000,000	4,000,000	3,790,334			15,790,334
	WASTE (tonnes)	8,480,992	5,357,094	8,829,602	4,702,347			27,370,035
	TOTAL (tonnes)	12,480,992	9,357,094	12,829,602	8,492,681			43,160,369
	WASTE/ORE RATIO	2.12	1.34	2.21	1.24			1.73
	CASH FLOW	$24,759,000	$8,364,000	$2,484,000	$3,924,000			$39,531,000

Table 1-5. Howe Whittle pit production schedules.

$350z Au Pits		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	TOTAL
ROM	Au (g/t)	1.31	0.80	0.64	0.66	0.67	0.56	0.96	0.78
0.36 g/t Au External Cutoff	ORE (tonnes)	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	239,098	24,239,098
	WASTE (tonnes)	7,187,749	4,303,461	5,707,824	4,345,599	3,389,214	7,702,296	3,621	32,639,764
	TOTAL (tonnes)	11,187,749	8,303,461	9,707,824	8,345,599	7,389,214	11,702,296	242,719	56,878,862
	WASTE/ORE RATIO	1.80	1.08	1.43	1.09	0.85	1.93	0.02	1.35
	CASH FLOW	$27,643,000	$11,514,000	$4,509,000	$6,456,000	$7,640,000	$234,000	$1,228,000	$59,224,000
ROM Crush/ Agglomerate	Au (g/t)	1.39	0.82	0.76	0.66	0.69			0.88
0.42 g/t Au External Cutoff	ORE (tonnes)	4,000,000	4,000,000	4,000,000	4,000,000	1,914,911			17,914,911
	WASTE (tonnes)	8,343,200	5,120,949	7,459,399	5,362,854	3,071,158			29,357,560
	TOTAL (tonnes)	12,343,200	9,120,949	11,459,399	9,362,854	4,986,069			47,272,471
	WASTE/ORE RATIO	2.09	1.28	1.86	1.34	1.60			1.64
	CASH FLOW	$27,956,000	$9,805,000	$5,619,000	$3,549,000	$1,904,000			$48,833,000

Table 1-6. 2003 Howe Proven and Probable reserve summary.

GOLD PRICE	CUT-OFF GRADE (g/t)	PROVEN RESERVES		PROBABLE RESERVES	
		TONNES (000)	GRADE (g/t)	TONNES (000)	GRADE (g/t)
$325	0.46	6,315	1.13	1,578	1.38
$350	0.40	6,632	1.10	1,641	1.35
$375	0.38	6,975	1.06	1,707	1.31

Mineral Processing and Metallurgical Testing

Several metallurgical tests on mineralized oxidized material from the Property have been completed, both by Morgain and by independent groups between 2004 and 2006. The tests were designed to determine the leaching characteristics of the oxidized material and consisted of:

- Bottle roll leach tests in 2004 and later column leach tests in 2006 by Kappes, Cassiday and Associates ("KCA");
- Two onsite bulk heap leach tests conducted by Morgain in 2005, followed by a residual analysis of the heaps conducted by Metcon Research ("Metcon") in 2006.

The data from the various tests have been reviewed and vetted by, D. Koningen, P.Eng, acting in the capacity of Morgain's internal Qualified Person in matters of process engineering and metallurgy. Mr. Koningen is also a Director of Morgain.

Presently Morgain is in the process of completing additional column and bottle roll tests designed to optimize leach performance and at the time of writing the results of these tests are pending.

From the metallurgical testing completed to date the following conclusions are made:

1. Ultimate gold recoveries from ROM ore material placed directly on the leach pad (no crushing) are in the 50-55% range;
2. Crushing of material to <½-¾" should be capable of producing gold recoveries of 68-72% across a range of head grades;
3. Reducing the ore size on the leach pad to <½-¾" will require crushing of approximately 23-40% of the ROM material;
4. Cyanide consumptions for a heap leach production situation appear to be less than 0.2 kg/t of ore;
5. Optimal lime consumptions during leaching will require additional column and bottle roll testwork. From the available data it would appear that conservative additions of 4-5 kg/t are more than sufficient;
6. Antiscalant was successfully added during the "test heaps" at a range of 0.03-0.05 kg/t. However, optimal addition rates will be less than these values;
7. Leachable copper from the ore appears to be minimal and unlikely to cause significant processing issues;
8. Silver recovery is low.

The majority of the gold from ROM ore was leached in approximately 25 days. Data from a crushed ore (nominal ¼") column test indicates that increased leach times (up to an additional 30-45 days) may be necessary when crushing is implemented.

Ongoing Metallurgical Work

A matrix of column leach tests are currently being carried out onsite by Morgain using leached residue material off the two heaps. Specifically, the various metallurgical tests are designed to examine the following in more detail:

1. Crush size versus gold recovery;
2. Recovery of unleached gold from "test heap" residues;
3. Impact of ore grade/mine location on gold leachability;
4. Reagent (lime and cyanide) consumption.

Financial Evaluation

Howe has carried out a financial evaluation that applies recent gold prices, new costs, and a production rate of 1.4 million tpy to Howe's Whittle-derived reserves and pit production schedules; specifically the 2002 base-case ROM scenario at US$325/oz Au. **It is important to note that since Whittle reserves and production schedules are optimizations based on specific costs and gold price, the application of 2006 costs and metal price to a Whittle model that was developed on 2003 costs and metal prices will only generate approximate project cash flows. Nevertheless Howe is of the opinion that such an evaluation will still provide a meaningful indication of the general economics of the project in lieu of re-running the Whittle pit optimization algorithm with present costs and prices.**

The base case for this financial evaluation assumes a conservative constant gold price of **US$450/oz Au** over the life of the project. Financial scenarios for US$500, $550, and $600/oz Au are also presented. Howe has assumed a 70% gold recovery during heap leap operations which represents the median projected recovery level (68-72%) based on metallurgical testing completed to date. Howe has also assumed that 30% of the ore mined will require crushing. This roughly represents the median estimated amount of ROM material that will need to be crushed (23-40% crushed to <½ – ¾") to achieve a 68-72% recovery. The scenarios do not account for any agglomeration of El Castillo ROM material. The need for agglomeration is yet to be determined.

The base case financial scenario at a conservative gold price of US$450 per ounce shows the El Castillo Project to be NPV positive and economically viable with a respectable Internal Rate of Return ("IRR") of 34% and an after tax payback period of approximately 2.8 years. At a gold price of US$500 the IRR increases to 54% and the after tax payback period decreases to approximately 1.8 years. The breakeven (after tax) gold price is approximately US$379/oz Au. The breakeven price includes recovery of capital and operating costs.

It is assumed that a US$450/oz or higher gold price would likely increase the reserve estimate beyond that which was estimated by Howe in 2003 on the basis of a gold price of US$325/oz, and not be offset by the higher capital and operating costs associated with a 1.4 million tpy operation. On this basis Howe concludes the El Castillo Project is economically viable and fairly robust and could achieve a reasonable payout within 2 or 3 years from the start of full production under conservative operating scenarios.

Conclusions

- The Property contains a low-sulfidation epithermal gold system.
- Morgain has carried out many of the recommendations given in the 2002 and 2003 Howe reports; principally column and bottle roll metallurgical testing, bulk leach testing, and core drilling for comparison with, and verification of, the Battle Mountain RC drilling assays.
- Historic estimates show mineral resources to be reasonably well-defined, but additional in-fill drilling over the resource and other areas of the property is recommended to expand and upgrade the existing resources. The resource estimate could also benefit from better defined specific gravity information and tighter geologic constraints as recommended by RMI and Howe (2004).
- The metallurgical testwork completed to date indicates that gold recoveries of between 68 and 72% are achievable, but would require crushing of 23-40% of ROM material to <½-¾". The testwork has resulted in a good understanding of the leaching characteristics of El Castillo material and the column and bottle roll tests currently underway will provide additional information about optimum reagent levels and usage. Agglomeration pre-treatment of El Castillo material has not yet been examined.
- On the basis of the financial analysis carried out in this report, Howe concludes the El Castillo Project is economically viable and fairly robust under present economic conditions and could

achieve a reasonable payout within 2 or 3 years from the start of full production under conservative operating scenarios.

In order to properly examine the project's economics, additional work is warranted to update the current resource using the latest drillhole database, topographic surface, and specific gravity information, and generating new Whittle pit shells and reserve estimates for a 1.4 million tpy operation and present gold prices.

Recommendations

Howe recommends that the following work be carried out in order to further advance the El Castillo Project to feasibility and/or production stage:

1. Morgain corrected a number of drillhole collar locations in their drillhole database and developed a more accurate topographic surface as well. The current resource - the 2002 Howe resource - should be updated to incorporate the corrected collar locations and new topographic surface.
2. Geologic mapping of the test pits and all road cuts should be carried out in order to generate a detailed geologic map of the property and provide tighter geologic controls on mineralization. Representative samples of all identified oxide and sulfide facies should be collected for the purpose of obtaining detailed specific gravity information for both oxide and sulfide resource estimation purposes. It should be determined if the presence chalcedonic silica will necessitate the need for blasting at El Castillo and what affect this could have on operating costs.
3. Additional infill drilling of the resource on 25 m centers is recommended. In the interest of time and cost, Howe recommends a modest 3,000 m diamond drilling program be completed to confirm the grade, thickness and continuity of mineralization. Depending on the results of this initial drilling program, further drilling could be required in the future. It is recommended that samples from this program be sent to an independent, certified third-party laboratory for analysis instead of the on-site laboratory.
4. Once the current resource has been updated to incorporate corrected drillhole collar locations, the new topographic surface, and any infill drilling data, new Whittle pit shells and reserve estimates should be generated for gold prices US$450/oz, $500/oz, $550/oz. and a 1.4 million tpy operational scenario in order to properly examine the Project economics.
5. Consideration be given to the possibility of Morgain purchasing capital equipment for mining and the impact that this would have on reducing the mine operating costs.
6. Consideration should be given to investigating the effect of agglomeration pretreatment on recoveries due to the likely presence of clays and fines in an epithermal-type deposit. Additionally, bulk crushing tests should be completed.
7. Geotechnical studies to determine all parameters required for an open pit mine and heap leach design should be completed.
8. Any documentation required for environmental permitting and land or water use should be initiated.

It is expected that the overall work program would be completed in stages over an approximately one year time frame. A budget of approximately US$1,041,000 is estimated for the exploration program.

EL CASTILLO PROJECT	Details	Summary
Geology		
Geological mapping + support*	50,000	**$56,300**
Samples (200 samples @ $30/sample)	6,000	
Specific gravity testing (30 samples @ $10/sample)	300	
Diamond Drilling		
Mob/Demob	10,000	**$550,000**
Infill drilling (3,000 metres @ $145/m) + support*	480,000	
Samples (2,000 samples @ $30/sample)	60,000	
Resource & reserve update		
Resource update (Gemcom®)	40,000	**$100,000**
New Whittle pit shells & reserve update (Gemcom®)	60,000	
QA/QC		
Standards, blanks and duplicates	25,000	**$25,000**
Metallurgical Testwork		
Agglomeration studies	30,000	**$80,000**
Bulk crushing tests	50,000	
Geotechnical Studies		
Pit and heap leach design work	50,000	**$50,000**
Environmental Studies		
Permitting studies and documentation	40,000	**$40,000**
Report Costs		
43-101 compliant project report	40,000	**$40,000**
	Sub-Total	**941,300**
	Contingency ~10%	**100,000**
	TOTAL	**1,041,300**

* Support includes all necessary personnel, vehicle & equipment rentals, food & accommodation, travel, and fuel