SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

Annual Report to Shareholders
2009

Listed on the Toronto Stock Exchange
Symbol: SAG

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (Expressed in United States dollars)

The following discussion is a review of the activities, results of operations and financial condition of South American Gold and Copper Company Limited and its consolidated subsidiaries ("SAGC" or the "Company") for the year ended September 30, 2009 and 2008, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of December 9, 2009. The discussion should be read in conjunction with the audited consolidated financial statements for the Company and the notes to those statements. The Company's consolidated financial statements and financial data have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In addition, this discussion contains certain forward-looking statements regarding the Company's businesses and operations. These statements are based on assumptions and judgments of management regarding future events and results. Actual results may differ materially from these statements as a result of a number of factors, many of which are beyond the control of SAGC. For more detail on these factors, refer to the section titled "Risk Factors" in this document.

All dollar amounts are expressed in United States dollars, except as otherwise indicated.

Additional information relating to the Company, including the Company's most recent annual information form, is available on SEDAR at www.sedar.com.

Forward Looking Information

This management's discussion and analysis contains or refers to forward-looking information. All information, other than information regarding historical fact, that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "may", "could", "potential", "should" "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Such forward-looking information includes, without limitation, information regarding the Company's expected or planned targets with respect to its operations and projects, estimates and/or anticipated levels and grades of future gold and/or copper production, the estimated mine life of the Pimenton gold mine, expectations regarding future production levels at Pimenton, potential mineralization, exploration results and the Company's future exploration plans, development and operational plans and objectives (including delineating additional mineral resources), expectations regarding cash flows, revenue and expenses, expectations regarding the

timing for the calculation of mineral reserves, the anticipated effect of production of gold dore at the Pimenton mine site and the Company's expectations regarding its dividend policy

The forward-looking information in this management's discussion and analysis reflects the current expectations, assumptions or beliefs of the Company based on information currently available to the Company. With respect to forward-looking information contained in this management's discussion and analysis, the Company has made assumptions regarding, among other things, the Company's ability to generate sufficient cash flow from operations and capital markets to meet its future obligations, the regulatory framework in Chile, with respect to, among other things, permits, licenses, authorizations, royalties, taxes and environmental matters, the ability of management to increase commercial mining operation at Pimenton, and the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company.

Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; capital and operating costs varying significantly from estimates; inflation; changes in exchange rates; fluctuations in commodity prices; delays in achieving planned production levels at the Pimenton gold mine caused by unavailability of equipment, labor or supplies, climatic conditions; inability to delineate additional mineral resources and other factors including, but not limited to, those listed under "Risk Factors".

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

The mineral resource figures referred to in this management's discussion and analysis are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates referred to in this management's discussion and analysis are well established, by their nature resource estimates are imprecise and

depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

Outstanding Share Information

As of December 9, 2009, the Company has issued one class of common shares (each, a "Common Share") and has a total of 792,440,170 Common Shares outstanding. As of December 9, 2009, the Company has 120,630,596 Common Share purchase warrants outstanding, each of which is exercisable for one Common Share at exercise prices of CA$0.025 to CA$0.70 through March, 2011. Options granted under the stock option plan of the Company (each, an "Option") outstanding as of December 9, 2009, total 91,610,000 of which 70,010,000, are currently exercisable into one Common Share for each Option at prices of CA$0.04 to CA$0.09 per Common Share expiring at various dates through May 14, 2014. The principal on the Company's $1,600,000 convertible secured debenture was converted into 28,108,288 Common Shares effective June 9, 2009.

The following discussion addresses matters which the Company believes are important for an understanding of its financial condition and results of operations as of and for the three months ended September 30, 2009 and the twelve month period ended September 30, 2009 and for its future prospects. It consists of the following subsections:

- Overall Performance
- Capacity to Deliver Results
- Results of Operations
- Summary of Results
- Related Party Transactions
- Risk Factors
- Accounting Policies
- Disclosure Controls and Procedures
- Internal Control Over Financial Reporting

Overall Performance

The Company faces competition from companies with far greater resources for high quality gold and copper prospects. However, it is necessary to first identify a high quality prospect through exploration. For this reason the Company does not feel disadvantaged by companies with greater resources. The Company's Pimenton gold/copper mine is a narrow high grade gold/copper mine located in the high mountain range of Chile. Because of its location it is subject to snow and avalanches which increase operating costs and can cause temporary shut down during the Chilean winter season compared to other gold/copper mines which are located in more temperate climates. Mining costs in a

narrow high grade mine such as Pimenton can also be higher on a cost per tons basis than in underground larger vein mines. However, because to date the gold/copper veins at Pimenton are of high grade the costs per ounce of gold/copper can be lower than that of a more conventional gold/copper mine. Because of the Pimenton mine's location, all electricity at the mine is self generated which increases the costs compared to a mine which is located on an electric grids. However, the grade of gold/copper ore at Pimenton to date is of such high grade that electric costs per ounce of gold can be lower than a mine operating on an electric grid but which has lower grade of gold/copper ore per ton.

In the final analysis, developing high grade gold/copper prospects is a function of willingness to prospect irrespective of a company's resources. The cash cost per ton of ore is not as important as the cash cost per ounce of gold. The Pimenton gold mine continues to advance relative to its plans to gradually expand production to 120 tons per day late in the calendar year ending December 31, 2009 and increase production to near 150 tons per day by calendar year end 2010.

Using its core mineral assets, the Company believes it is now positioned to grow into a profitable mining company as it continues production at its Pimenton gold/copper mine and continues to develop it's indicated resources into proven and probable reserves.

Management believes that the values of the Pimenton gold mine, the potential porphyry copper deposit, the Catedral/Rino and Cal Norte limestone deposits, and the Tordillo, and La Bella prospects are not currently reflected in the Company's market capitalization and will continue its effort to demonstrate the underlying values of the Company's assets.

Pimenton gold mine

Pimenton encompasses 3,121 hectares (7,708 acres).

The Pimenton gold mine started operations in July 2004 and was shut down on June 9, 2005, when a major snow storm moved through the region causing extreme avalanche danger at the mine site and the road leading to it. In December 2007, the Company was successful in raising funds sufficient to start-up operations at its Pimenton gold mine. In January 2008, the Company commenced work to prepare the mine for operations.

Most of the Company's efforts have been focused on restarting Pimenton. The Pimenton mine was put into production in July 2008 with commercial production being declared October 1, 2008, at a rate of production of 91 tons per day during the 21 days the plant was in operation during October 2008. The Company has plans to gradually increase production to 120 tons per day in the next twelve months with a further increase to 200 tons per day in early 2011. At the present rate of production, proven and probable reserves are sufficient for two years. The Company is currently working to convert 321,000 tons of drill indicated resources as defined in the Company's December 31, 2009 resources and reserve report which was prepared in compliance with National Instrument 43-101 -*Standard of Disclosure for Mineral Projects* ("NI 43-101") into the proven and probable reserves and continue exploration for new gold veins at Pimenton.

Pimenton - porphyry copper

The Company has conducted exploration activities on a potential porphyry copper deposit located within the Pimenton area on which the Company holds mining claims. Based on a diamond drill program completed by Rio Tinto Mining and Exploration Ltd. ("Rio Tinto") on the potential porphyry copper deposit located within the Pimenton area Rio Tinto provided the Company with an exploration report which among other things, identified a copper gold porphyry system with potential resources of several hundred million tons and added significant value to the Pimenton porphyry copper project.

In March 2007, the Company entered into a letter of undertanding with Empresa Minera de Mantos Blancos S.A., which was subsequently renamed Anglo American Norte S.A. ("Anglo") a wholly-owned subsidiary of Anglo American, p.l.c. ("Anglo America"), pursuant to which Anglo agreed to fund and complete a 2,000 meters diamond drill program on the potential porphyry copper deposit located within the Pimenton area. Anglo completed this drill program. In October 2008, during its joint venture discussions, Anglo American informed the Company that it had decided to terminate further discussions regarding such joint venture agreement due to the uncertainty in world commodity prices. The Company will continue exploration on the Pimenton porphyry copper deposits in the 2010 exploration season and may conduct further drilling on the prospect during the 2010-2011 exploration season.

Tordillo

The Company holds mining claims on Tordillo which is located 11.5 kilometers south-southwest of Pimenton and covers an area of 6,632 hectares (16,381 acres). It is in the early exploration stage and to date the Company has identified several gold vein structures similar to those at Pimenton and an area of potential porphyry copper mineralization. The preliminary data suggests Tordillo contains the upper part of a deep-seated copper/gold and possibly copper molybdenum porphyry system associated with narrow high grade gold and copper veins which may be widespread and represent a separate exploration target. Tordillo is located in an area of intense exploration activity and was acquired by the Company in 2006.

Bandurrias

An interest in Bandurrias, a copper prospect, was acquired by the Company in August 2007 by way of an option agreement. Under the terms of this option agreement, $30,000 was paid on signing; $70,000 was due nine months after signing, followed by four payments of $100,000 every nine months, with a final payment at 36 months of $600,000. The balance of the $6,500,000 price, being $5,400,000, was to be paid in the form of a 5% net smelter royalty. In April 2008, the Company did not renew its option agreement on Bandurrias which was comprised of claims covering approximately 1,982 hectares (4,897 acres) in the Fifth Region of Chile and wrote off $214,000 in 2008 relating to this option agreement, but acquired approximately 13,400 hectares (33,098

acres) surrounding the Bandurrias Prospect area in which the company held a 100% interest. In June, 2009 the Company did not renew its claims on 11,500 hectares (28,405 acres), leaving the Company with 1,900 hectares (4,693 acres) on Bandurrias. The Company elected to write off the balance of claims costs totalling $52,000. In November, 2009 the Company placed claims on 10,935 hectares (27,000 acres) bring its total position on Bandurrias to 12,835 hectares (31,693 acres).

La Bella

The Company has signed an option agreement (the "La Bella Option Agreement") to earn a 100% interest on claims covering approximately 4,000 hectares (9,880 acres) (the inner circle) and has put down additional claims covering an outer circle which encompasses an additional area of approximately 29,500 hectares (72,865 acres) of claims located 75 kilometers southwest of Santiago, Chile. See "Liquidity and Capital Resources – La Bella Option Agreement" for a discussion of the option payments required under the La Bella Option Agreement.

A small field crew is prospecting for gold veins on the 33,500 hectares (82,745 acres) of total claims held by the Company for gold veins. In addition, geochemical soil sampling is being carried out on the vein outcrops. Subsequent drilling will be based on geochemical results after the Corporation's Pimenton mine is in production at commercial production rates for at least six months.

Limestone deposits

The Company holds interest in two limestone deposits.

Lime is used by the Chilean mining industry in processing sulfide copper ores and in heap leaching of gold ores.

The Chilean lime market was adversely affected by the devaluation of the Argentinean peso in 2003 resulting in a flow of cheap lime from Argentina into the Chilean lime market for the last four years. This situation and financial constraints on the Company have limited the ability of the Company to capitalize on its lime position. With the recovery of the Argentinean economy in the past three years the domestic demand for lime is improving thereby allowing for increased pricing by the Argentinean lime producers. Trucking costs of Argentinean lime imported into Chile have also increased the costs of Argentinean lime to the Chilean mining industry which is a large consumer of lime.

The Company's limestone deposits at Catedral and Cal Norte contain high grade limestone which, when calcined, can produce lime that the Company's management believes will qualify for use by the Chilean mining industry.

While the changing economic situation, as noted above, will enable the Company to continue its efforts to become a supplier of lime to the Chilean copper industry, it also

strengthens the Company's position as it reviews alternative strategies for the sale, joint venture or spin-off of the Catedral/Rino and Cal Norte limestone properties.

As a result of management's decision to focus on Pimenton the Company wrote down its Catedral/Rino project in accordance with Section 3063 – impairment of long-lived assets. Irrespective of Section 3063 the directors and management of the Company believe these properties will have longer term value to the Company and its shareholders.

Additionally, the Company has written off its exploration costs, until it deems the project to have a definitive resource potential as defined by NI 43-101. The total amount of these write offs as of September 30, 2009 was $199,000 (2008 - $6,056,000). In addition the Company wrote down $17,957 for the twelve month period ended September 30, 2009 (2008 - $163,485) related to recoverable taxes.

Capability to Deliver Results

Pimenton gold mine

On December 29, 2003, Compania Minera Pimenton ("CMP") entered into a loan agreement with the Overseas Private Investment Corporation ("OPIC") for $2,800,000 of project financing.

The loan agreement contained financial and operational covenants, including, among other things, a minimum working capital ratio, as defined, limitations on trade debt and short term credit facilities, achievement of minimum exploration drilling, minimum reserve development and minimum production levels.

Due to events at the mine, CMP advised OPIC that it believed it would not be in compliance with financial and operating covenants of its loan agreement for the calendar quarters through and until October 1, 2006. On September 30, 2006 and September 30, 2007 the Company notified OPIC that it was not in compliance with the financial and operating covenants of the loan agreement and OPIC granted CMP an additional waiver until June 30, 2009. Effective June 14, 2009 the Company has renegotiated the terms of the OPIC wavier agreement. Under the new agreement, the Company has signed a "Standstill Agreement" with OPIC and has agreed to make quarterly principal payments at the rate of $311,111 beginning on June 15, 2009 versus semi-annual payments of the same amounts called for in the original loan agreement.

Potential porphyry copper

The Company has incurred sufficient explorations expenditures to maintain the Pimenton porphyry in good standing.

Tordillo

The presence of strong extensive explosive breccias is reminiscent of the porphyry copper systems at large existing copper mines in Chile. Subsequent exploration should bring into perspective the vein potential and establish if the porphyry system is large enough to host possible economic copper mineralization. The Company is deferring exploration activities while it is bringing Pimenton on line.

La Bella

As of September 30, 2009, the Company wrote off a total of $79,000 (2008 - $31,000 relating to exploration costs on the La Bella in line with its policy of writing off explorations expenditures until a resource potential in accordance with NI 43-101 has been established.

Limestone deposits

As at September 30, 2009, the Company had contributed $3,535,000 (2008 - $3,492,000) to finance a drilling program on Catedral/Rino and completed a preliminary feasibility study for construction of a 1,320 ton per day capacity cement manufactory facility on the project as well as a preliminary feasibility study for constructions of a 600 ton per day lime kiln on the Catedral property. In 2008 the Company wrote off the balance of $3,492,000 in mining properties and exploration costs relating to Catedral/Rino as the properties had been on care and maintenance for more than three years in accordance with section 3063 – impairment of long – lived assets, as it focuses its efforts on its Pimenton gold mine. For the twelve month period ended September 30, 2009, the Company wrote off an additional $43,417 relating to leasehold costs on the Catedral/Rino.

As at September 30, 2009, the Company had contributed $1,541,000 (2008 - $1,534,000) to finance a bankable feasibility study on the project, environmental permitting, and further mine development on Cal Norte. Although the Company has incurred sufficient explorations expenditures to maintain the Cal Norte property in good standing, in 2008 the Company wrote off the balance of $1,534,013 in mining properties and exploration costs as the properties had been on care and maintenance for more than three years in accordance with section 3063 – impairment of long – lived assets, as it focuses its efforts on its Pimenton gold mine. For the twelve months period ended September 30, 2009, the Company wrote off an additional $7,239 relating to leasehold costs on the Cal Norte project.

Results of Operations

Below are the estimated costs to restart operations at the Pimenton mine. Included are the Common Stock issued in dollars versus the estimated cost to restart operations and the additional cost incurred.

	Actual Nine months to September 30, 2009	December 31, 2008	December 30, 2007
Revenues from gold and copper sales	8,492,000	1,824,000	-
Beginning cash	438,000	3,467,000	344,000
Common Stock issued	-	1,872,000	3,025,000
Warrants excised	-	57,000	390,000
	8,930,000	7,220,000	3,759,000
Operating cost and general administrative cost before royalties	(6,361,000)	(1,331,000)	-
Net liabilities and asset paid	(1,714,000)	-	-
Estimated cost to restart Pimenton Mine operations	-	(3,579,000)	(292,000)
Additional costs	-	(1,872,000)	-
Cash at end of the period	**855,000**	**438,000**	**3,467,000**

Included in the estimated costs to restart Pimenton mine operations was $1,500,000 of working capital for each period ended September 30, 2007 and 2008. The additional costs of $1,872,000 included:

1. Building of an entire new snow load roof over the Pimenton plant versus a partial roof at an estimated additional cost of $700,000.

2. Additional working capital of approximately $500,000 caused by delays in arrival of overseas equipment for the plant. This caused a two month delay in getting the plant into commercial production.

3. Additional snow handling equipment not originally budgeted for including two refurbished Piston Bully snow cats at a cost of $500,000 plus freight and taxes.

4. In addition, general improvements were made in the plant at Pimenton, the rebuilding of additional mining equipment and improvements to the camp at a total cost of approximately $172,000.

The additional cost of $1,872,000 was covered by a non-broker private placement of 38,275,822 units which closed on September 9, 2008. Three directors, two of whom are

also officers of the Company purchased 22,000,000 units. Each unit was priced at $0.05. Each unit consists of one common share and one-half Common Share purchase warrant. Each whole warrant is exercisable at an exercise price of $0.07 for a period of two years from closing. Net proceeds from the placement were $1,872,421.

The Company believes that its Pimenton mine will continue to generate sufficient cash flow to cover its future operating costs and future capital expenditures and to cover the current operating costs of the Company.

The Company plans to gradually increase production to 150 tons per day after the current Chilean winter season has passed. The Company's ability to maintain its current level of cash flow per quarter is dependent on maintaining mine production and plant production of at least 90 tons per day, on maintaining the level of grade of ore into the plant and maintaining the recovery rate of Knelson gold concentrates and copper concentrates. The future price of gold will also have a positive or negative impact on the ability of Pimenton to maintain the current level of quarterly profitability.

Result of operations - 2009

The Company reported net income of $104,000 for the year ended September 30, 2009 compared to a loss of $8,570,000 in 2008.

Revenue from gold sales was $9,176,000 and from copper and silver sales were $1,140,000 with related operating expenses of $6,892,000 for the year ended September 30, 2009. There was no revenue from gold, copper or silver and no related operating expenses for the twelve months ended September 30, 2008. The mine was declared to be in commercial production effective October 1, 2008.

Operating expenses were $6,892,346 in the twelve months ended September 30, 2009 compared to $nil for the same period in 2008. The increase during the twelve month period ended September 30, 2009 consisted of: mine expenses $2,425,350; plant operations $1,242,338; maintenance and road operations $1,121,584; royalties $592,979; smelting, refining and metallurgical charges $332,730; management $100,535; camp expenses of $724,134; transportation of concentrate $100,504; health clinic and safety and other of $252,192.

Amortization expense was $722,684 for the twelve months ended September 30, 2009 compared to $nil for the same period in 2008 due to the commencement of commercial production at Pimenton on October 1, 2008. Amortization expenses are amortized into operations using the unit-of production method (UOP) over the estimated useful lives of the related ore reserves. Depreciation expenses for the twelve months ended September 30, 2009 were $741,662 compared to $15,000 for the same period in 2008. The increase was due to the capitalization of depreciation expenses against property costs in 2008 of $636,000 when it became clear that the Pimenton mine would be put back into operation. The remaining increase of $90,662 was due to mining equipment purchases.

Temporary closure expenses were $nil in the twelve months ended September 30, 2009 compared to $50,000 for the same period in 2008. The reduction of $50,000 was due to the mine start up activities which were recommenced on October 1, 2008.

General and administrative costs decreased by $141,000 for the twelve months ended September 30, 2009 as compared to the same period in 2008. Salaries decrease by $216,217, shareholders expenses decreased by $20,140, professional and consultants fees decreased by $9,580, material, transport and fuels increased by $134,096, and other expenses, including overhead, decreased by $ 29,159.

Stock based compensation was $253,779 during the twelve month period ended September 30, 2009 compared to $398,000 for the same period in 2008. The Company has expensed $212,000 for the vesting period of the Common Stock Options during the twelve months ended September 30, 2009, for 2,339,538 Options granted on April 30, 2008 whose vesting period is between date of grant and four years and for the 25,000,000 Options granted on March 13, 2008, whose vesting period is between date of grant and four years. In addition, on May 12, 2009, 3,000,000 Options were granted to the Chief Financial Officer of the Company at an exercise price of CA $0.04 per share, exercisable for a period of file years, 1,000,000 to vest immediately, 1,000,000 to vest one year from the date of grant, and the balance of 1,000,000 to vest on the second anniversary of the date of grant. The fair value of these options was estimated in $88,128, using the Black –Scholes valuation model, assuming a risk- free rate of 2.1%. In additions, on May 12, 2009, 660,462 Options were granted to director of the Company an exercise price of CA $0.04 per Share, exercisable until April 30, 2013 to vest over a period between date of grant and three years. The fair value of these options was estimated in $19,402, using the Black –Scholes valuation model, assuming a risk- free rate of 2.1%.

During the twelve months period ended September 30, 2008, the Company recognized the total stock based compensation of $442,533 of which $44,314 charged to mine development and $398,259 charged to stock based compensation. On April 30, 2008, 2,339,538 common stock options were granted to a new director of the Company at an exercise price of CA$0.05 per share, exercisable for a period of four years from the date of issuance. The fair value of these options was estimated in $76,360, using the Black-Scholes valuation model, assuming a risk-free rate of 3.04%. On April 29, 2008 an officer and director received 1,000,000 bonus shares valued at $44,474 using the TXS closing price of CA$0.045.

Also, the Company issued on March 13, 2008 25,000,000 common stock options exercisable at CA$0.045 per share for a period of four years from the date of issuance, which were issued to: (i) the President of the Company (10,000,000 options); and (ii) three new directors and two serving directors who are not officers of the Company (15,000,000 options). The fair value of these options was estimated in $747,442, using the Black –Scholes valuation model, assuming a risks-free rate of 3.6%, no dividend, and volatility factor of 80% and expensed as stock-based compensation. In addition, seven

employees who are not officers of the Company were awarded a total of 1,950,000 common stock options having a five year life with immediate vesting at a price of CA$0.045 per share. The fair value of these options was estimated in $57,595 using the Black-Scholes valuation model, assuming a risks-free rate of 3.6%, no dividend, and volatility factor of 80% and expensed as stock-based compensation.

Warrant revaluation expense was $nil in the twelve months ended September 30, 2009 compared to $90,000 for the same period in 2008. Warrant revaluation expenses represent the fair value of the extended warrants in excess of the fair value of the warrants being extended at the extension dates and is charged to expense. In the twelve months ended September 30, 2008, 16,635,628 warrants expiring on January 31, 2008, were extended to March 31, 2008 and then expired. 20,000,000 warrants expiring on October 21, 2006, were extended two times; first to October 22, 2007 and then to April 22, 2008 when they expired. These warrant revaluations resulted in an expense of $83,845. The fair value of the warrants were assigned using the Black-Scholes valuation model assuming risk free interest rates of 1.75% to 4.21%, no dividend and a volatility factor of 80%. $6,316 was related to the issuance of new broker units being issued on the exercise of the original 1,435,000 warrants.

The foreign exchange gain was $138,000 for the twelve months ended September 30, 2009 compared to a gain of $256,000 for the same period in 2008. The decrease in foreign exchange gain of $118,000 was due to the decrease in value of the US dollar versus the Chilean peso. This resulted in an increase of $63,404 related to recoverable taxes which are denominated in Chilean pesos. Other exchange amounted was an increase of $54,596.

The estimated cash flow of reclamation and remediation of $3,825,000 is expected to be incurred over a period extending to ten years from the commencement of mine operations calculated at the present value on September 30, 2009. This estimated cash flow is discounted using a credit –adjusted risk-free rate of 7.5%. Reclamation and remediation expenses discounted at 7.5% for the twelve month period ended September 30, 2009 was $139,190.

Exploration and mining properties written-off in accordance with section 3063 – impairment of long-lived assets during the year ended September 30, 2009 totaled $199,000 (2008 - $6,056,000) and were as follows: Catedral $43,000 (2008 - 3,492,000), Cal Norte $7,000 (2008 - $1,534,000), Bandurrias $52,000 (2008 - $214,000); La Bella $79,000 (2008 – $31,000); Chachas Peru $nil (2008 - $172,000); Breccia $nil (2008 - $411,000) and various others for $nil (2008 - $39,000). The write down of $411,000 in 2008 on the Breccia at Pimenton represents work performed by the Company outside the area of interest of the drilling performed by Rio Tinto and Anglo. The Company has taken the decision to expense its exploration costs until it deems the project to have definitive resource potential as defined by National Instrument 43-101. The balance of $18,000 (2008 - $163,000) represents a write-off of recoverable taxes that had been capitalized against these properties.

Interest expense was $494,000 in the twelve months ended September 30, 2009 compared to $821,000 in the same period of 2008. The decrease of $327,000 was due to a reduction of $80,700 of the convertible secured debenture interest, when the holders, Mr. David R.S. Thomson and Mr. Mario Hernandez both Executive Vice President and directors of the Company elected to convert the $1,600,000Convertible Secured Debenture. The OPIC default interest charge was reversed in the amount of $207,109. The outstanding principal balance on the OPIC loan as of June 11, 2009 was $1,555,555. Pimenton began to repay the principal and interest quarterly on June 15, 2009 with principal repayments of $ 311,111 each quarter. Interest will be paid quarterly at the interest rate applicable to the outstanding amount of each disbursement as set forth in the agreement.

Other income was $562,000 in the twelve months ended September 30, 2009 compared to $15,000 in the same period of 2008. On June 9, 2009 the holders, Mr. David R.S. Thomson and Mr. Mario Hernández both Executive Vice President and directors of the Company elected to convert the $1,600,000 convertible secured debenture which was issued to them in 2006 and was due to mature on March 31, 2013 into 28,108,288 Common Shares at a conversion price $0.0569 per share. These shares were valued at $903,662 using the TSX closing price of CA$0.035 on June 9, 2009 resulting in a gain of $1,024,658, of which $392,276 was recorded as other income for the three months ended June 30, 2009 and $632,382 was recorded as a gain in the deficit section of the balance sheet. Also on June 9, 2009, Mr. David R.S. Thomson and Mr. Mario Hernández converted $507,118 of leases secured by certain mining equipment into 12,261,795 Common Shares of the Company. The shares were valued at $0.035 using the TSX closing price as of March 9, 2009 and resulted in a gain of $116,935, which was recorded as other income for the twelve months ended September 30, 2009. Other income was $46,802 for mining claims recovered in November 2008. This was offset by a reduction of $9,013.

Other expenses were $61,000 in the twelve month period ended September 30, 2009 compared to $nil in the same period of 2008. The Company compensated the Executive Vice-President and Director of explorations, who is also director of the Company, for guaranteeing the payment of a lease agreement with a local Chilean bank with the conversion of the lease debenture totaling $72,233. This was offset by anticipated lease payments with the convertible debenture generating a gain of $42,151. Other expense of $20,332 was due to interest and readjustment of taxes payable (IVA).

Summary of Results

The following table presents a summary of the Company's financial information for the past three years. The Company's fiscal year ends on September 30.

(in thousands, except per share amounts)	2009	2008	2007
	$	$	$
Precious metal revenue	10,316	-	-
Net income (loss)	104	(8,570)	(3,750)
Basic and diluted income (loss) per share	-	(0.01)	(0.01)
Total assets	22,035	20,731	20,990
Long term financial liabilities (note 1)	14,051	14,940	6,320
Cash dividends	Nil	Nil	Nil

Note (1) : Includes option payments of La Bella totaling $8,705,000.

Non-GAAP Financial Measures

This MD&A refers to cash cost per tonne of pre processed and cash cost per ounce of gold in concentrate produced because certain investors may use this information to assess the Company's performance and also determine the Company's ability to generate cash flow for investing activities. These measurements capture all of the important components of the Company's production and related costs. In addition, management utilizes these metrics as an important management tool to monitor cost performance of the Company's operations. Theses measurements have no standardized meaning under Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. These measurements are intended to provide additional information and should net be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP.

The following table provides, for the periods indicated, a reconciliation of the Company's cash cost measures to its Canadian GAAP cost sales:

Reconciliation of Non-GAAP Measures to Canadian GAAP Cost of Sales:

For the year ended September 30, 2009	
Gold processed tonnes	26,861
Gold in concentrate produced (ounces)	10,607
Cost of sales	8,491
Add (deduct):	
Amortization and depreciation	(1,460)
Remediation and reclamation	(139)
Total cash cost of production before by-product credits	6,892
Silver and copper credit	(1,140)
Total cash cost of production after by-product credits	5,752
Cash cost per ounce	542,35

The Company declared the Pimenton mine to be in commercial production effective October 1, 2008 at the rate of 91 tons per day of production. This production rate will be gradually increased to an average of 150 tons per day in mid 2010 with further increase to 200 tons per day in 2011. The following is a sensitivity analysis:

PRODUCTION VARIABLES AND SENSITIVITIES FOR 100 to 200 TPD.

VARIABLES

Head grade gold	14.44	g/t
Head grade copper	1.26	%
Starting tones per day year 1	100	Tpd
Tones per day year 2	200	Tpd
Price per Ounce Gold	$1,000	
Price per pound Copper	$2.8 0	
Exchange rate US$	500	CH$
Plant combined recovery	90%	
Loan Interest rate	8.50%	
Price per liter Diesel	470	CH$
Price per liter Gasoline	500	CH$

ALL IRR% ARE FOR ENTIRE INVESTMENT
100 TPD to 200tpd USING PRICES OF $1,000 gold and $2.8Copper

Grade Sensitivity. Projects from a low of 8g/t to 16 g/t Au head grade through plant.

Au g/t	Au%	Op.Cost/Oz	IRR%
10	0.7	$458	76%
12	1.0	$391	95%
14	1.2	$349	110%
16	1.4	$288	123%

Cost/Oz is cash cost per ounce at the mine

100 to 200 TPD
Recovery Sensibility. Projects from 5% to 10% less plant Recovery for gold.

% diff. Recovery	Op.Cost/Oz	IRR%
-10%	$371	90%
-5%	$355	102%
2%	$335	117%

Operating cost/Oz is cash cost per ounce at the mine

Tonnage Sensitivity from a low of at 100 to a high of 200 tpd.

Tons per day	Op.Cost/Oz	IRR%
70%	$533	54%
80%	$394	74%
90%	$365	93%
100%	$341	112%
110%	$321	132%

100 to 200 TPD
Price of Gold Sensitivity

Price per Ounce	IRR%
$500	9%
$600	36%
$700	56%
$800	75%
$900	93%
$1,000	111%
$1,100	129%
$1,200	147%

Price per liter of Diesel fuel	Cost per Ounce of Au produced	IRR%
CH$ 400	$340	112%
CH$ 500	$349	110%
CH$ 550	$353	108%

Summary of Quarterly Results

	September 30, 2009	**June 30, 2009**	**March 31, 2009**	**December 31, 2008**
Sales	1,789	2,890	3,813	1,824
Operating income (loss)	(1,201)	204	1,191	(392)
Per share	(0.0015)	0.0003	0.0016	(0.0005)
Per share diluted	(0.0012)	0.0002	0.0012	(0.0004)
Net income (loss)	(1,285)	651	1,139	(401)
Per share	(0.0016)	0.0008	0.0015	(0.0005)
Per share diluted	(0.001)	0.001	0.0011	(0.0004)

	September 30, 2008	**June 30, 2008**	**March 31, 2008**	**December 31, 2007**
Sales	Nil	Nil	Nil	Nil
Operating income (loss)	(291)	(1,671)	(300)	(391)
Per share	(0.0004)	(0.0024)	(0.0004)	(0.0006)
Per share diluted	(0.0003)	(0.0017)	(0.0003)	(0.0004)
Net income (loss)	(5,192)	(1,671)	(1,316)	(391)
Per share	(0.0071)	(0.0024)	(0.0019)	(0.0006)
Per share diluted	(0.0051)	(0.0017)	(0.0013)	(0.0004)

Liquidity and capital resources

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years
	$	$	$	$
Purchase obligations	1,945,677	1,945,677	-	-
OPIC loan	933,333	933,333	-	-
Long-term amount due to related parties	1,308,000	528,000	780,000	-
Long-term debt	1,894,813	-	1,894,813	-
Capital leases	50,438	28,625	21,813	-
La Bella option payments (1)	9,302,725	598,181	5,686,969	3,017,575
Conditional loan agreement (2)	2,500,000	-	-	2,500,000
Catedral prospect	150,000	-	150,000	-
Total Contractual Obligations	**18,084,986**	**4,033,816**	**8,533,595**	**5,517,575**

Note (1). The Company is only obligated to make the option payments on either the inner circle or the outer circle as long as it desires to keep the underlying claims. The Company may drop either or both the inner or outer circle at any time and no further option payments are due to be paid. The agreement was made in UF in Chile. The UF is used in purchases and in agreements as a unit that is adjusted daily for inflation. For example, one UF is valued at $21.000 pesos tomorrow it could be valued at $21.001 pesos, with the additional one peso representing the upward adjustment due to inflation. The function of the UF is to protect the value in pesos of an investment or agreement from inflation. These payments for December, 2009 and January 2009 and in future years are base of the UF price at September 30, 2009.

Note (2). Two officers and directors of the Company hold the non-controlling interest in Catedral. Under an agreement dated November 27, 1996, the Company agreed to provide or cause to provide these officers and directors a loan of up to $1,250,000 each or $2,500,000 in total. Such loans are to pay their proportionate share of development costs if a bankable feasibility study demonstrates that the properties can be placed into commercial production, and to fund their combined 50% share of an option payment totalling $500,000, which was paid during 1997.

The acquisition, exploration, financing, and development of natural resources require the expenditure of significant funds before production commences. Historically, the Company has financed these activities through the issuance of Common Shares, the exercise of Options and Common Share purchase warrants, the issuance of promissory notes and debentures, bank debt and extended terms from creditors.

The Company raised an aggregate of $3,974,997 in a private placement which closed on December 17, 2007. In addition, two directors and officers of the Company financed lease purchase agreements to purchase mining equipment for the Pimenton mine totaling $530,162. On September 9, 2008, a further $1,872,427 was raised through a non-brokered private placement in which three directors, two of whom are also officers of the Company, participated in the aggregate amount of $1,100,000. These funds and the equipment lease financing enabled the Company to put its Pimenton mine into production in July 2008 with commercial production being declared effective October 1, 2008.

On December 12, 2008, the Company sold through a private placement 19,408,620 units at CA$0.025 per unit, consisting of one Common Share and one half Common Share purchase warrant with each whole warrant entitling the holder thereof to purchase one

Common Share at CA$0.045 per Common Share at any time within 24 months of the date of issue, of which 4,285,020 Common Shares were issued to a director who is also an officer of the Company in payment of cash advance of $85,000 at November 2008, plus purchase warrants to purchase up to 2,145,510 Common Shares. In addition, the placement agent received 1,209,888 Common Share purchase warrants exercisable for 24 months from the date of issuance at CA$0.025 per Common Share.

At September 30, 2009, cash was $855,000 and $22,000 in current and restricted cash, respectively.

To preserve its cash position the Company has been, and plans to continue, concentrating its efforts on Pimenton and substantially defer expenditures on other projects.

The positive working capital of $490,000 at September 30, 2009 is expected to be further increased by revenues and operating profit from the Company's Pimenton gold mine. The Company plans to gradually increase production to 150 tons per day in the next twelve months with a further increase to 200 tons per day by late 2010.

Revenues for gold, silver and copper sales from the mine are expected to cover operating costs of the mine plus generate sufficient funds to cover capital expenditure required to sustain operations in the future. The Company has installed a gold table at an estimated cost of $150,000 which is expected to substantially increase the gold ounces per ton of Knelson concentrate. This purchase will facilitate operations in the future. The ability of the Pimenton mine operations to cover its operating costs and generate sufficient funds to cover capital expenditure budget is dependant on the prices of gold, silver and copper; dependant on the gold veins in the mine retaining their width, continuity and grade of ore; dependant on snow conditions in the Chilean winter which runs from May 2010 to August 2010; dependant on the future price of diesel fuel; dependant on the price of the Chilean peso relative to the US Dollar and dependant on the ability of the Company to retain its current work force.

The Company sells its gold, silver and copper concentrate directly to the Enami smelter which is owed by the State of Chile through its ownership of CODELCO. Enami pays for approximately 60% of the value of shipment the week following delivery and the balance of the payment is made one to two months following the date of receipt of the initial payment. As the Company increases the production to 200 tons per day in late 2010 this one to two months delay in receipt of the balance of the 40% payment could cause a short term cash flow shortfall for the Company. In addition, during the winter months of operation the 80 kilometer road into the mine site can be closed for extended periods of time, thereby not allowing shipment of copper concentrate to Enami. The Company's Knelson Concentrate, however, which contains 60% of the gold value produced by the mine, can be either helicoptered, or taken out of the mine by the snow cats.

The ability of the Company to produce its own gold doré at the mine site will increase its flexibility both in delivery to Enami during winter months or by allowing the Company to

ship the gold doré bars directly to a gold smelter in Europe or Canada which would eliminate the one to two months delay in receipt of payment from Enami.

The Company has not declared or paid any dividends and does not foresee the declaration or payment of dividends in the near future. Any decision to pay dividends on the Common Shares will be made by the board of directors on the basis of the Company's earnings, financial requirements and other conditions existing at such future time.

The Executive Vice President - Director, Claims and Land Management and the Executive Vice President-Director of Exploration, both directors of the Company hold the non-controlling interest in the Catedral prospect and the Company has agreed to lend such officers and directors up to an additional $2,250,000 for development costs.

La Bella Option Agreement

Under the terms of the Option Agreement (inner circle) the Company has paid $30,000 and $70,000 is due in December 2008, $232,121 in December 2009, $928,485 in December 2010, $1,044,545 in December 2011 and $1,160,606 in December 2012. The Company will pay a 2 ½% Net Smelter Royalty to the optionee from production thereafter.

On the outer circle the Corporation paid $100,000 in December 2008 with the remaining payment obligations of $116,060 in December 2009 since differed to February 26, 2010 due to access problems to the prospect and future payments have been deferred by one month to $580,303 in February 2011, $812,424 in February 2012, $1,160,606 in February 2013 and $3,017,575 in February 2014. The Corporation has an obligation to pay a 2½% net smelter royalty to the optionee of the outer circle from production thereafter.

The agreement was made in UF in Chile. The UF is used in purchases and in agreements as a unit that is adjusted daily for inflation. For example, one UF is valued at $21.000 pesos tomorrow it could be valued at $21.001 pesos, with the additional one peso representing the upward adjustment due to inflation. The function of the UF is to protect the value in pesos of an investment or agreement from inflation. These payments for December, 2009 and January 2009 and in future years are base of the UF price at September 30, 2009.

In addition, the Company has a combined minimum exploration obligation of $50,000 in year one, $250,000 in year two and $700,000 in year three on the inner and outer circle.

Cal Norte

The Company must make an additional capital contribution of $394,000 to Cal Norte to earn its 60% equity interest.

Related Party Transactions

A company owned by the Chief Executive Officer of the Company, who is also a director of the Company (the “CEO”) billed the Company $64,220 in 2009 (2008 - $78,286) for the provision of office space and services used by the Company. Receivable from an officer and director of the Company of $240,574 in 2009 (2008 - $152,978) is the net amount of non-interest-bearing note receivable compensations and advances to the CEO. The note is due on June 30, 2010 and is collateralized by 6,532,000 Common Shares owned by this officer and director.

The former Chief Financial Officer (the “CFO”)of the Company retired on February 6, 2008 at which time he was owed $207,260. The Company entered into a retirement agreement with the former Chief Financial Officer under which he received 2,000,000 Bonus Shares and was paid $17,648 for the difference between the net sales price of the 2,000,000 Bonus Shares and $100,000. In addition he has been paid $5,000 per month beginning February, 2008 and continued to be paid at the rate of $5,000 per month until February 28, 2009. Beginning in March, 2009 he was paid $12,500 per month until the net balance has been paid. Effective September 30, 2009 the former chief financial officer was paid in full (2008 - $67,260) The former Chief Financial Officer billed $nil for accounting services rendered to the Company in 2009 (2008 - $63,279).

A company controlled by the current CFO of the Company billed the Company $32,845 for accounting and administration services rendered in the period ended September 30, 2009 (2008 - $20,731). Amounts due to related parties include payables to this officer of $7,057 for such services at September 30, 2009 (2008 - $9,051).

During 2007, the Executive Vice-President Director, Claims and Land Management, who is also a director of the Company, purchased an interest in the Pimenton notes and royalty from a non-related party. The fair value of this note was $957,793 at September 30, 2009 (2008 - $876,378) and interest expense was $48,432 in 2009 (2008 - $48,879). Amounts due to related parties include $242,358 (2008- $195,238) for interest and $398,136 for royalties as at September 30, 2009 (2008 - $101,646).

Amounts due to related parties include $243,984 and $193,926 as at September 30, 2009 and 2008, respectively, for interest due to executive-vice president-director of exploration who is also a director of the Company who holds one of the Pimenton notes in the fair value amounts of $951,683 and $870,787 as at September 30, 2009 and 2008, respectively, and interest expense was $48,746 in 2009 (2008 – $48,879). In addition, amounts due to related parties include $398,136 and $101,645 as at September 30, 2009 and 2008, respectively, for royalties due to this officer and director who is the owner of a net smelter royalty on the Pimenton gold mine and include a cash advance of $8,909 which was provided to the Company in July 2008.

In June 2008, the Executive Vice-President and Director of Exploration, who is also a director of the Company agreed to guarantee the payment of a 37-month lease purchase

agreement entered into by the Company on February 23, 2008 with a local Chilean bank for the purchase of certain equipment whose purchase price was $150,672. The Company compensated the Executive Vice-President and Director of Exploration for guaranteeing the payment of a lease agreement with the conversion of the lease debenture totalling $72,233.

Two officers and directors of the Company hold the non-controlling interest in Catedral. Under an agreement dated November 27, 1996, the Company agreed to provide or cause to provide these officers and directors a loan of up to $1,250,000 each or $2,500,000 in total. Such loans are to pay their proportionate share of development costs if a bankable feasibility study demonstrates that the properties can be placed into commercial production, and to fund their combined 50% share of an option payment totalling $500,000, which was paid during 1997.

On July 11, 2008, the Executive Vice President and Director of Land and Administration, who is also a director of the Company bought from CMP, a vehicle. The sale price of the vehicle was $13,575 inclusive of VAT tax at 19%. The transaction generated a $5,326 loss to the Company. Amounts receivable from related parties include $13,735 for this transactions at September 30, 2008 (2008 – $12,884).

In 2001, the Board of Directors and Compensation Committee approved the granting of a 3.2% net smelter royalty interest on Tordillo, a 2.5% net smelter royalty interest on both the inner circle and out circle of claims on La Bella.to the CEO, the Executive Vice President and Director of Exploration and the Executive Vice President and Director of Administration who are also directors of the Company.

Mineral Reserves and Mineral Resources Estimates

The Company has compiled, with an independent qualified person under Canadian Instrument 43-101, a Mineral Reserve and Mineral Resource estimate of the Pimenton mine in December 2009. This report will be filed on SEDAR at www.sedar.com, prior to December 29, 2009.

Outlook

Risk Factors

The Company is a minerals producing, exploration and development company with properties currently focused in Chile. Its mining activities involve numerous inherent risks. The Company is subject to various financial, operational and political risks that could significantly affect its profitability and operating cash flow. The Company minimizes these risks by careful management and planning. These risks include changes in local laws affecting the mining industry, a decline in the price of gold or copper, uncertainties inherent in estimating mineral reserves and mineral resources and fluctuations in the Chilean peso against the US dollar. The Company does not use

financial instruments to mitigate the risks of changes in the price of gold or currency fluctuations.

The mining industry is intensely competitive in all of its phases. The Company competes with many companies possessing greater technical facilities and financial resources than are available to it.

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.

The Company is subject to foreign exchange variations against its functional currency, the United States dollar, as it purchases certain goods and services in Chilean pesos and Canadian dollars. The Chilean peso fluctuates in line with a basket of currencies currently consisting of the US dollar, the Euro and the Japanese yen. The Central Bank of Chile from time to time re-weights the percentage of emphasis placed on a given currency in the basket and may from time to time replace one world currency in the basket with another world currency.

The Company's revenues, if any, in the future, will be primarily derived from the mining and sale of gold, copper, limestone and lime and the disposition of interests in mineral properties or interests related thereto. The price of these commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumptive patterns. A drop in the price of gold, copper, limestone and lime could adversely affect the Company's financial condition, results of operations and cash flows. Lower gold, copper, limestone and lime prices may result in: a) asset impairment and a write-down of the asset carrying value, b) production cutbacks and c) cessation of operations.

The Company's Pimenton mine is highly dependent on generating its own electrical needs at the mine, plant and camp sites. Fuel costs have risen substantially and are expected to further increase. Higher fuel costs will have an adverse impact on profitability of the mine.

Mine labour costs in Chile are increasing which could adversely impact operating profits at the Pimenton mine.

The Company operates primarily in Chile and is exposed to the laws governing the mining industry in Chile. The Chilean government is currently supportive of the mining industry but changes in government regulations including taxation, repatriation of profits, restrictions on production, export controls, environmental compliance, expropriation of

property and shifts in political stability of the country and labor unrest could adversely affect the Company’s exploration efforts and production plans.

Gold reserves are reduced by production and therefore must be replaced by expanding existing gold deposits or finding new ones. There can be no assurance that the Company’s development and exploration programs will result in new gold reserves. Mineral reserves and resources are estimates which may differ significantly from actual mining results.

Due to financial constraints the Company manages its operations with a limited number of key personnel. The need to replace any of these individuals could adversely affect the Company’s operations until a qualified replacement is found.

The Company is currently pursuing insurance for business interruptions and insurance on its camp, plant, assay laboratory, fuel storage and garage facilities at Pimenton. The Company currently does not have these insurance policies.

The Company’s mine is located in an area that can experience severe winter weather conditions which could adversely affect mining operations. Such conditions occurred during 2005, resulting in the shutdown of the Pimenton mine. In addition, the Company is subject to environmental laws and regulations that are constantly changing and may require expenditures that are significantly different from our current estimates.

Readers should read the risk factors which are described in more detail in the Company’s annual information form which will be dated prior to December 29, 2009. Such factors could materially affect future operating results of the Company and cause actual results to differ materially from those described in forward –looking information relating to the Company.

The Company’s continuance as a going concern is dependent upon obtaining adequate funding, reaching profitable operations at the mine, pursuing joint venture partners, sale or other disposition of all or part of its assets, or additional external funding. There is no assurance that the steps management is taking will be successful and, in the event that such resources are not available, the Company’s assets may not be realized or its liabilities discharged at their carrying amounts, and these differences could be material.

Accounting Policies

To discharge its responsibilities for financial reporting and for safeguarding of assets, managements believes that it has established appropriate systems of internal control which provide reasonable assurance, at appropriate cost, that the assets are maintained and accounted for in accordance with its policies and that the transactions are recorded accurately on the Company’s books and records.

A summary of the significant accounting policies are set out below:

Principles of consolidation

These consolidated financial statements include the accounts of South American Gold and Copper Company Limited (the Company or SAGC) and its subsidiaries:

South American Gold and Copper Bermuda Ltd. (Bermuda)
SAGC Cathedral Limited (Cathedral)
SAGC Management, Inc. (Management)
SAGC Pimenton Limited
Compañía Minera Til Til Limitada (Til Til)
Compañía Minera Pimenton (Pimenton)
Compañía Minera Vizcachas (Vizcachas)
Compañía Minera Catedral (Catedral)
Compañía Cal Norte (Cal Norte)
Compañía Minera Tordillo Limitada
Minera Bandurria SAGC Limitada
Compañía Minera La Bella SAGC Limitada

All inter-company transactions and balances have been eliminated upon consolidation.

Foreign currency translation and transactions

The Company's functional currency is the U.S. dollar. The Company's foreign currency transactions, balances and integrated operations denominated in foreign currencies are translated into the Company's reporting currency, U.S. dollars, as follows:

Monetary assets and liabilities are translated at the exchange rates in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year, with the exception of amortization, which is translated at the historic rate of the related asset. Translation gains and losses are reflected on the consolidated statements of operations, deficit and comprehensive loss. The Company's operations expose it to significant fluctuations in foreign exchange rates.

Use of estimates

Generally accepted accounting principles require management to make assumptions and estimated that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimated.
Significant estimated used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable, the estimated net realizable value of inventories, any asset retirement obligation, stock–based compensation and the provision for income taxes and composition of future income tax assets and liabilities.

Cash and restricted cash

Cash and restricted cash consist of cash. The restricted cash components are presented separately on the consolidated balance sheets. The current portion of restricted cash is pledged as security for principal and interest payments due within the year.

Accounts receivables

Accounts receivables include the provisional invoicing of the sale of concentrates. These invoices are based on the Company's weights and assays, and are subject to review and final agreement by the customer. Changes between the prices recorded upon recognition of revenue and final price due to fluctuation in price of gold results in the existence of an embedded derivative in the receivable balances. This embedded derivative is recorded at fair value, with changes in fair value classified as a component of revenue.

Mining properties, plant and equipment

Expenditures for facilities and equipment and expenditures that extend the useful lives of facilities and equipment are capitalized at cost and are amortized over their estimated useful lives, which do not exceed the estimated useful mine life, based on "proven and probable" mineral reserves and "mineral measured resources".

Expenditures for the continued development of the property are capitalized as incurred and are amortized using the unit of production method over the estimated useful life of the mine based upon proven and probable reserves and mineral measured resources. These costs include building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

An impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds the estimated future undiscounted cash flows relating to the mining properties, plant and equipment. Such impairment loss recognized is calculated as the excess of the carrying amount over the fair value of the mining properties, plant and equipment.

Exploration and development costs

Acquisition costs of resource properties, together with direct exploration and development expenses incurred thereon, are deferred and capitalized in the accounts. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to mining properties, plant and equipment on the consolidated balance sheets and are amortized into operations using the units of production method, based on proven and probable mineral reserves and mineral resources.

The Company regularly assesses the exploration and development costs for impairment. An impairment occurs when at least one of the following conditions are met:

Producing properties

- The carrying amount of the capitalized costs exceed the related undiscounted net cash flows of proven and probable reserves and measured resources;

Exploration properties

- exploration activities have ceased;
- exploration results are not promising such that exploration will not be planned for the foreseeable future;
- lease ownership rights expire; or
- sufficient funding is not expected to be available to complete the exploration program; then the carrying amount will be written down to its fair value and charged to operations.

Revenue recognition

Revenue from the sale of concentrates is recognized following the transfer of title and risk of ownership and the determination in accordance with contractual arrangements with customers. Risk and title is transferred when the concentrate is delivered to the premises of ENAMI, the Chilean national mining company. Generally, the final settlement price is computed with reference to the average quoted metal prices for a specified period of time, normally one month subsequent to shipment to the customer. Revenues are recognized when the concentrate material is delivered to ENAMI based on the currently prevailing metals prices, quantities of concentrate delivered and provisional assays as agreed between the company and ENAMI for each shipment. Concentrate sales are subject to adjustment on final determination of weights and assays, revenues are adjusted when these final determinations are known. By-products such as copper and silver are contained within concentrates shipped to ENAMI and revenue from these by-products are recognized on the same criterion as those used for gold revenues.

Stock-based compensation

The Company has a share option plan, as discussed in note 9(c). Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Consideration paid by optionees on exercise of an option is recorded in share capital. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date. The share price at the grant date is considered to be equal to the closing price of the Company's stock on the TSX on the business day preceding the grant date.

Income taxes

The asset and liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are determined, based on differences between the financial reporting and income tax bases of assets and liabilities, and are measured using the income tax rates substantively enacted at the consolidated balance sheet dates that are expected to apply when the assets are realized or the liabilities are settled. Net future income tax assets are offset by valuation allowances to the extent that they are considered not more likely than not to be realized.

Earnings and loss per share (EPS)

Basic EPS is computed by dividing the income or loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares when the conditions necessary for issuance have been met. Diluted EPS is calculated in a manner similar to basic EPS, except that the weighted average number of shares outstanding is increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants on the as-if converted method for convertible securities.

Reclamation and remediation

Asset retirement obligations are recorded in mining properties, plant and equipment and in liabilities at fair value, when incurred. The liability is accreted over time through periodic charges to income. The amount of the liability is subject to remeasurement at each reporting period. These obligations are associated with long-lived assets for which there is a legal obligation to settle under existing or enacting laws, statutes or contracts. The related assets are amortized using the unit of production method.

Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate on which the estimated cash flows have been discounted. The actual asset retirement obligation and closure costs may differ significantly, based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

Financial instruments recognition, measurement, disclosure and presentation

Financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognised or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net loss.

Hedging

The Company currently does not hold any financial instruments designated for hedge accounting.

Capital disclosures and financial instruments – Disclosures and presentation

On December 1, 2006, the CICA issued three accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These standards became effective for the Company on October 1, 2007.

Capital disclosures

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the Handbook section in note 19 to these consolidated financial statements.

Financial instruments

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These sections place increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the Handbook section in note 18 to these consolidated financial statements.

New accounting standards

General standard of financial statements presentation

CICA Handbook Section 1400, "General Standards of Financial Statement Presentation," which changed the guidance related to management's responsibility to assess the ability of the entity's ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events of conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The amendments to Section 1400 apply to interim and annual financial statements relating to fiscal years of the Company after October 1, 2008.

Inventory

In June 2007, a replacement section for inventories, Section 3031 "Inventories" was issued and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and eliminates the use of the "last-in, first-out" method of accounting and is effective for the fiscal years of the Company after October 1, 2008.

The Company values its concentrate inventories at the lower of cost or net realizable value at the end of the reporting period. Net realizable value includes metal prices, net of treatment charges and freight. Metal prices can be subject to significant change from period to period.

Goodwill and intangible assets

The Canadian Institute of Chartered Accountants issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be

expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management assessed the impact of these new accounting standards on its consolidated financial statements. The Company has determined that its deferred charges meet the criteria for deferral with the adoption of CICA Handbook Section 3064 for the fiscal year beginning October 1, 2008.

Mining exploration costs

In March 2009, the CICA approved EIC 174,"Mining Exploration Costs". This guidance clarified when exploration costs related to mineral properties may be capitalized and, if exploration costs are initially capitalized, when should impairment be assessed to determine whether a write-down is required. The guidance further clarified what conditions indicate impairment. This guidance is applicable to financial statements filed after March 27, 2009. The Company has considered this guidance in assessing the value of its mineral properties at September 30, 2009.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This guidance clarified that an entity's own credit risk and the credit of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivate for the year ended September 30, 2009. The Company has performed an assessment as of September 30, 2009 and believes there to be no impact on its financial statements.

Recent accounting pronouncements

Business Combinations/Consolidated Financial Statements/Non-Controlling Interest

In January 2009, the CICA adopted sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements" and 1602, "Non Controlling Interest" which superseded current sections 1581, "Business Combinations" and 1600, "Consolidated Financial Statements". These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new section concurrently. These new sections were created to converge Canadian GAAP to IFRS. The Company will assess the impact of this section prior to implementation.

International Financial Reporting Standards

The Accounting Standards Board confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises for the financial periods beginning on or after January 1, 2011, including comparative figures for the prior year.

SAGC will transition to IFRS effective October 1, 2011 and intends to issue its first interim financial statements under IFRS for the three month period ending December 31, 2011 and a complete set of financial statements under IFRS for the year ending September 30, 2012.

SAGC is currently undertaking a process to identify differences between Canadian GAAP and IFRS relevant to SAGC and evaluate the impact of the required changes on existing accounting systems, business processes, and requirements for personnel training and development.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's system of disclosure controls and procedures includes, but is not limited to, the effective functioning of its audit committee and procedures in place to systematically identify matters warranting consideration of disclosure by the audit committee.

As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the CEO and the CFO, evaluated the effectiveness of the Company's disclosure controls and procedures as required by applicable Canadian securities laws. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under applicable Canadian securities laws, is recorded, processed, summarized and reported within time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

Internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the Company's GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the issuer; and are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that

could have a material effect on the annual financial statements or interim financial statements.

As at the end of the period covered by this management's discussion and analysis, management of the Company, under the supervision of the CEO and the CFO, evaluated the effectiveness of the Company's internal control over financial reporting as required by applicable Canadian securities laws. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by this management's discussion and analysis, the internal control over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

During the most recent year end there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

South American Gold and Copper Company Limited

Consolidated Financial Statements
September 30, 2009 and 2008
(expressed in thousands of U.S. dollars)

December 9, 2009

Management's responsibility for financial reporting

The consolidated financial statements and other information in this report were prepared by the management of **South American Gold and Copper Company Limited,** reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Management is responsible for the preparation of the consolidated financial statements and believes that they fairly represent the Company's financial position and the results of its operations, in accordance with Canadian generally accepted accounting principles.

Management has included amounts in the Company's consolidated financial statements based on estimates, judgments and policies that it believes reasonable under the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control, which provide reasonable assurance, at appropriate cost, that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately on the Company's books and records.

PricewaterhouseCoopers LLP were appointed as the Company's external auditors at the Annual General Meeting of the Shareholders. Their report outlines the scope of their examination and their opinion.

(Signed)

"Stephen W. Houghton"
Chief Executive Officer

(Signed)

"Peter W. Hogg"
Chief Financial Officer

Auditors' Report

To the Shareholders of
South American Gold and Copper Company Limited

We have audited the consolidated balance sheets of **South American Gold and Copper Company Limited** as at September 30, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
December 9, 2009

South American Gold and Copper Company Limited

Consolidated Balance Sheets

As at September 30, 2009 and 2008

(expressed in thousands of U.S. dollars)

	2009 $	2008 $
Assets		
Current assets		
Cash	855	153
Restricted cash (note 10(a))	22	22
Receivable from an officer and director (note 16)	14	14
Receivables (notes 8)	433	110
Recoverable taxes (note 6)	2,125	2,131
Product and supplies, inventory (note 4)	476	396
	3,925	2,826
Receivable from an officer and director (note 16)	241	153
Mining properties, plant and equipment (note 5)	17,242	16,603
Exploration properties (note 7)	627	335
Recoverable taxes (note 6)	-	814
Total assets	22,035	20,731

Commitments (note 15)

The accompanying notes form an integral part of these consolidated financial statements.

South American Gold and Copper Company Limited

Consolidated Balance Sheets

As at September 30, 2009 and 2008

(expressed in thousands of U.S. dollars)

	2009 $	2008 $
Liabilities		
Current liabilities		
Short-term lease (note 15(b))	29	25
Current portion of long-term debt (note 10)	933	1,560
Accounts payable and accrued liabilities	1,422	1,052
Amounts due to related parties (note 16)	528	801
Taxes payable (VAT)	523	490
	3,435	3,928
Long-term debt (note 10)	1,895	2,610
Long-term lease (note 15(b))	22	50
Long-term amounts due to related parties (notes 15 and 16)	780	236
Reclamation and remediation (note 13)	1,995	1,856
Total liabilities	8,127	8,680
Shareholders' Equity		
Share capital (note 9(b))	70,919	69,255
Contributed surplus (note 12)	3,145	2,580
Convertible subordinated debentures (note 10(c))	-	907
Options (note 9(c))	1,479	1,418
Warrants (note 11)	1,454	1,716
Accumulated deficit and comprehensive loss	(63,089)	(63,825)
Total shareholders' equity	13,908	12,051
Total liabilities and shareholders' equity	22,035	20,731

Commitments (note 15)

Approved by the Board of Directors

(Signed) Paul J. DesLauriers Chairman **(signed) Stephen W. Houghton** Chief Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

South American Gold and Copper Company Limited

Consolidated statements of operations, comprehensive loss and deficit

For the years ended September 30, 2009 and 2008

(expressed in thousands of U.S. dollars)

	2009 $	2008 $
Revenues		
Gold	9,176	-
Copper and silver	1,140	-
	10,316	-
Expenses		
Operating cost	6,892	-
Amortization and depreciation	1,464	15
Temporary mine shutdown	-	50
Reclamation and remediation	139	-
General and administrative	1,409	1,550
Stock-based compensation (notes 9(c))	254	398
Warrant revaluation	-	90
Foreign exchange gain	(138)	(256)
Interest on long-term debt	494	821
	10,514	2,668
Loss before undernoted	(198)	(2,668)
Other income	562	15
Other expenses	(61)	-
Write off of exploration properties (note 7)	(199)	(6,056)
Income (loss) before income taxes and non-controlling interest in consolidated subsidiary's loss	104	(8,709)
Non-controlling interest in consolidated subsidiary's loss	-	139
Income (loss) and comprehensive income (loss) for the year	104	(8,570)
Accumulated Deficit - Beginning of year	(63,825)	(55,255)
Gain on conversion of convertible secured debentures (note 10(c))	632	-
Accumulated Deficit - End of year	(63,089)	(63,825)
Basic and diluted income (loss) per share (note 2)	-	(0.01)

Commitments (note 15)

The accompanying notes form an integral part of these consolidated financial statements.

South American Gold and Copper Company Limited

Consolidated Statements of Cash Flows

For the years ended September 30, 2009 and 2008

(expressed in thousands of U.S. dollars)

	2009 $	2008 $
Cash provided by (used in)		
Operating activities		
Income (loss) for the year	104	(8,570)
Non-cash items		
Amortization an depreciation	1,464	15
Accretion of interest on long-term debt	367	729
Foreign exchange loss (gain)	(138)	(256)
Non-controlling interest in consolidated subsidiary's loss	-	(139)
Taxes and penalty	24	64
Write-off of exploration properties	199	6,056
Provision and withholding	504	350
Reclamation and remediation	139	-
Royalties	593	20
Gain on conversion of convertible secured debentures	590	-
Non-cash employee share compensation	-	44
Non-cash non-employee share compensation	6	252
Non-cash employee options (note 9 (c))	254	354
Non-cash warrant revaluation	-	90
	4,106	(991)
Changes in non-cash working capital relating to operations (note 17)	(797)	(602)
	3,309	(1,593)
Investing activities		
Additions to mining equipment and exploration property	(2,217)	(716)
Mine development and mining properties capitalized (notes 5 and 7)	-	(3,291)
Receivable from an officer and director	(119)	(154)
	(2,336)	(4,161)
Financing activities		
Shares issued (note 9(b))	361	5,270
Warrants exercised (note 9(b))	-	447
Amounts due to related parties	-	9
Repayment of capital leases	(25)	(167)
Repayment of debt (note 10(a))	(623)	-
	(287)	5,559
Effect of foreign exchange on cash and cash equivalents held in foreign currency	16	4
Increase (decrease) in cash during the year	702	(191)
Cash - Beginning of year	153	344
Cash - End of year	855	153

Supplemental cash flow information (note 17)

Commitments (note 15)

The accompanying notes form an integral part of these consolidated financial statements.

(expressed in thousands of U.S. dollars)

1 Summary of significant accounting policies

These consolidated financial statements are presented in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

A summary of the significant accounting policies are set out below:

a) Principles of consolidation

These consolidated financial statements include the accounts of South American Gold and Copper Company Limited (the Company or SAGC) and its subsidiaries:

South American Gold and Copper Bermuda Ltd. (Bermuda)
SAGC Cathedral Limited (Cathedral)
SAGC Management, Inc. (Management)
SAGC Pimenton Limited
Compañía Minera Til Til Limitada (Til Til)
Compañía Minera Pimenton (Pimenton)
Compañía Minera Vizcachas (Vizcachas)
Compañía Minera Catedral (Catedral)
Compañía Cal Norte (Cal Norte)
Compañía Minera Tordillo Limitada
Minera Bandurria SAGC Limitada
Compañía Minera La Bella SAGC Limitada

All inter-company transactions and balances have been eliminated upon consolidation.

b) Foreign currency translation and transactions

The Company's functional currency is the U.S. dollar. The Company's foreign currency transactions, balances and integrated operations denominated in foreign currencies are translated into the Company's reporting currency, U.S. dollars, as follows:

Monetary assets and liabilities are translated at the exchange rates in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year, with the exception of amortization, which is translated at the historic rate of the related asset. Translation gains and losses are reflected on the consolidated statements of operations, deficit and comprehensive loss.

c) Use of estimates

Generally accepted accounting principles require management to make assumptions and estimated that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimated.

(expressed in thousands of U.S. dollars)

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable, the estimated net realizable value of inventories, any asset retirement obligation, recoverability of mineral properties including exploration properties, stock–based compensation and the provision for income taxes and composition of future income tax assets and liabilities.

d) Cash and restricted cash

Cash and restricted cash consist of cash. The restricted cash components are presented separately on the consolidated balance sheets. The current portion of restricted cash is pledged as security for principal and interest payments due within the year.

e) Accounts receivables

Accounts receivables include the provisional invoicing of the sale of concentrates. These invoices are based on the Company's weights and assays, and are subject to review and final agreement by the customer. Changes between the prices recorded upon recognition of revenue and final price due to fluctuation in price of gold are taken to income.

f) Mining properties, plant and equipment

Expenditures for facilities and equipment and expenditures that extend the useful lives of facilities and equipment are capitalized at cost and are amortized over their estimated useful lives, which do not exceed the estimated useful mine life, based on "proven and probable" mineral reserves and "mineral measured resources."

Expenditures for the continued development of the property are capitalized as incurred and are amortized using the unit of production method over the estimated useful life of the mine based upon proven and probable reserves and mineral measured resources. These costs include building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

An impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds the estimated future undiscounted cash flows relating to the mining properties, plant and equipment. Such impairment loss recognized is calculated as the excess of the carrying amount over the fair value of the mining properties, plant and equipment.

g) Exploration and development costs

Acquisition costs of resource properties are capitalized. Direct exploration and development expenses are expensed as incurred until resources have been identified and then these expenses are deferred. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to mining properties, plant and equipment as mine development costs and are amortized into operations using the units of production method, based on proven and probable mineral reserves and mineral resources.

(expressed in thousands of U.S. dollars)

The Company regularly assesses the exploration and development costs for impairment. An impairment occurs when at least one of the following conditions are met:

Producing properties

- The carrying amount of the capitalized costs exceed the related undiscounted net cash flows of proven and probable reserves and measured resources;

Exploration properties
- exploration activities have ceased;
- exploration results are not promising such that exploration will not be planned for the foreseeable future;
- lease ownership rights expire; or
- sufficient funding is not expected to be available to complete the exploration program; then

the carrying amount will be written down to its fair value and charged to operations.

h) Revenue recognition

Revenue from the sale of concentrates is recognized following the transfer of title and risk of ownership and the determination in accordance with contractual arrangements with customers. Risk and title is transferred when the concentrate is delivered to the premises of ENAMI, the Chilean national mining company. Generally, the final settlement price is computed with reference to the average quoted metal prices for a specified period of time, normally one month subsequent to shipment to the customer. Revenues are recognized when the concentrate material is delivered to ENAMI based on the currently prevailing metals prices, quantities of concentrate delivered and provisional assays as agreed between the company and ENAMI for each shipment. Concentrate sales are subject to adjustment on final determination of weights and assays, revenues are adjusted when these final determinations are known. By-products such as copper and silver are contained within concentrates shipped to ENAMI and revenue from these by-products are recognized on the same criterion as those used for gold revenues.

i) Stock-based compensation

The Company has a share option plan, as discussed in note 9(c). Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Consideration paid by optionees on exercise of an option is recorded in share capital. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date. The share price at the grant date is considered to be equal to the closing price of the Company's stock on the TSX on the business day preceding the grant date.

j) Income taxes

The asset and liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are determined, based on differences between the financial reporting and income tax bases of assets and liabilities, and are measured using the income tax rates substantively enacted at the consolidated balance sheet dates that are expected to apply when the assets are realized or the liabilities are settled. Net future income tax assets are offset by valuation allowances to the extent that they are considered not more likely than not to be realized.

k) Earnings and loss per share (EPS)

Basic EPS is computed by dividing the income or loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares when the conditions necessary for issuance have been met. Diluted EPS is calculated in a manner similar to basic EPS, except that the weighted average number of shares outstanding is increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants on the as-if converted method for convertible securities.

l) Reclamation and remediation

Asset retirement obligations are recorded in mining properties, plant and equipment and in liabilities at fair value, when incurred. The liability is accreted over time through periodic charges to income. The amount of the liability is subject to remeasurement at each reporting period. These obligations are associated with long-lived assets for which there is a legal obligation to settle under existing or enacting laws, statutes or contracts. The related assets are amortized using the unit of production method.

Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate on which the estimated cash flows have been discounted. The actual asset retirement obligation and closure costs may differ significantly, based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

m) Financial instruments recognition, measurement, disclosure and presentation

Financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognised or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the

(expressed in thousands of U.S. dollars)

normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net loss.

Hedging

The Company currently does not hold any financial instruments designated for hedge accounting.

n) Capital disclosures and financial instruments – Disclosures and presentation

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Financial instruments

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General standard of financial statements presentation

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(expressed in thousands of U.S. dollars)

Inventory

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Mining exploration costs

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Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This guidance clarified that an entity's own credit risk and the credit of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivate for the year ended September 30, 2009. The Company has performed an assessment as of September 30, 2009 and believes there to be no impact on its financial statements.

(expressed in thousands of U.S. dollars)

p) Recent accounting pronouncements

Business Combinations/Consolidated Financial Statements/Non-Controlling Interest

In January 2009, the CICA adopted sections 1582, "*Business Combinations*", 1601, "*Consolidated Financial Statements"* and 1602, "*Non Controlling Interest*" which superseded current sections 1581, "*Business Combinations*" and 1600, "*Consolidated Financial Statements*". These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new section cocurrently.These new sections were created to converge Canadian GAAP to IFRS. The Company will assess the impact of this section prior to implementation.

2 Basic and diluted loss per share

	2009 $	2008 $
Income (loss) for the year	104	(8,570)
Weighted average number of shares outstanding - basic	758,266,083	665,640,985
Basic and diluted income (loss) per share	-	(0.01)

The effect of convertible debentures, notes, options and warrants is not included in computing the diluted per share amounts, since in the context of reported losses for the years, such effect would be anti-dilutive.

3 Income taxes

The Company's future income tax liability has been calculated as follows:

	2009 $	2008 $
Income (loss) before income taxes and non-controlling interest in consolidated subsidiary's loss	104	(8,709)
Income tax recovery provision at Canadian federal and provincial statutory rates (2009 - 33.13%; 2008 - 34.16%)	(34)	2,975
Effect of expenses incurred in non-taxing jurisdictions	(94)	(40)
Effect of difference in regional income taxes compared with Canadian rates	112	(214)
Expenses not deductible for income tax purposes	(52)	(1,448)
Effect of losses incurred for book purposes, the income tax benefits of which have not been recognized in these consolidated financial statements	68	(1,273)
(Recovery of) provision for future income taxes	-	-

(expressed in thousands of U.S. dollars)

The Company's net future income tax asset (liability) as at September 30 is summarized as follows:

	2009 $	2008 $
Mining properties, plant and equipment and exploration properties	4,629	4,282
Non-capital losses carried forward and other future assets	2,635	3,258
	7,264	7,540
Valuation allowance	(7,264)	(7,540)
Net future income tax liability	-	-

As at September 30, 2009, the Company and its subsidiaries had available Canadian income tax loss carry-forwards of approximately $2.7 million that expire between 2009 and 2029, Chilean tax loss carry-forwards of approximately $8.4 million that can be carried forward indefinitely and U.S. tax loss carry-forwards of approximately $1.2 million that can be carried forward 20 years.

The Company has recorded a valuation allowance in the amount of $7,264,000 as at September 30, 2009 (2008 - $7,540,000) because management currently believes that the future income tax assets are not more likely than not to be realized in the allowable loss carry-forward periods.

Realization of future income tax assets is dependent on many factors, including the ability of the Company to generate sufficient taxable income within the allowable loss carry-forward periods in order to use the available income tax loss carry-forwards.

The country of Bermuda currently imposes no income, withholding or capital gains taxes. In the event that such taxes are enacted, the Company is exempt from the imposition of Bermudian taxes until 2016.

4 Product and supplies inventory

	2009	2008
Concentrate inventory	251	209
Supplies inventory	225	187
	476	396

(expressed in thousands of U.S. dollars)

5 Mining properties, plant and equipment

				2009
	Estimated useful life	**Cost $**	**Accumulated amortization $**	**Net $**
Mining properties	UOP	3,969	909	3,060
Buildings and equipment	1-10 years	9,644	5,749	3,895
Mine development	UOP	12,956	2,669	10,287
		26,569	9,327	17,242

				2008
	Estimated useful life	**Cost $**	**Accumulated amortization $**	**Net $**
Mining properties	UOP	3,969	740	3,229
Buildings and equipment	1-10 years	7,605	5,074	2,531
Mine development	UOP	12,956	2,113	10,843
		24,530	7,927	16,603

The cost of assets under capital leases and the related accumulated amortization amounted to $111,655 in 2009 (2008 - $643,005) and $22,421 in 2009 (2008 - $26,586), respectively.

On June 9, 2005, the mine closed due to a major snowstorm. In mid-July 2008 the Company restarted operations at Pimenton. The Pimenton Mine was declared to be in commercial production at October 1, 2008. Effective October 1, 2008 gold, copper and silver sales and operating costs are reported in the statement of operations. Mining properties and mine development are amortized into operations using the unit-of production method (UOP) over the estimated useful lives of the related ore reserves. Amortization expenses was $654,700 for the year ended September 30, 2009 (2008-$nil). Prior to October, 2008 gold sales and operating costs have been capitalized for financial accounting purposes. For the year ended September 30, 2008 the Company capitalized revenue $329,444 against mine development expenditures. Total amount capitalized for the year ended September 30, 2009 was $2,039,000. (2008 - $5,921,000)

6 Recoverable taxes

Recoverable taxes in the amount of $2,125,483 at September 30, 2009 (2008 – $2,131,000 of the total of $2,945,000) have been classified as a short-term asset. Recoverable taxes in the amount of $349,000 as at September 30, 2009 (2008 - $344,000) represent VAT taxes paid on the fixed assets, which can be recovered upon request to the Chilean tax authorities. The Company filed such request, which has been denied by the Chilean tax authorities on technical grounds. The Company is appealing this decision. VAT relating to other expenditures is recoverable either by means of a credit against tax due upon domestic sales of the Company or

by requesting reimbursement of VAT borne when exporting or export commitments are proven. Therefore, the recoverability of these amounts is dependent upon the ability of the Company to develop and derive future production from its Pimenton gold mine.

7 Exploration properties

The following table summarizes exploration expenses by property.

	Catedral (a) $	Cal Norte (b) $	Pimenton Porphyry (c) $	Chachas (d) $	Tordillo (e) $	Bandurrias (f) $	La Bella (g) $	Other (h) $	Total $
Acquisition costs									
Balance as at September 30, 2007	1,092	54	-	77	112	-	-	10	1,345
Additional costs capitalized	-	-	-	-	75	112	96	-	283
Writedowns	(1,092)	(54)	-	(77)	-	(60)	-	(10)	(1,293)
Balance as at September 30, 2008	-	-	-	-	187	52	96	-	335
Additional costs capitalized	43	7	-	-	41	-	326	-	417
Writedowns	(43)	(7)	-	-	-	(52)	(23)	-	(125)
Balance as at September 30, 2009	-	-	-	-	228	-	399	-	627
Exploration costs									
Balance as at September 30, 2007	2,347	1,409	411			131	-	76	4,469
Additional costs capitalized	53	24	-				31	-	131
Reclasification	-	47	-	-	-	-	-	(47)	-
Writedowns	(2,400)	(1,480)	(411)	(95)	-	(154)	(31)	(29)	(4,600)
Balance as at September 30, 2008	-		-	-	-	-	-	-	-
Additional costs capitalized		-	-	-	-	-	56	-	56
Reclasification	-	-	-	-	-	-	-	-	-
Writedowns	-	-	-	-	-	-	(56)	-	(56)
Balance as at September 30, 2009	-		-	-	-	-	-	-	-
Summary - 2009									
Acquisition costs	-	-	-	-	228	-	399	-	627
Exploration costs	-	-	-	-	-	-	-	-	-
Total as at September 30, 2009	-	-	-	-	228	-	399	-	627
Summary - 2008									
Acquisition costs	-	-	-	-	187	52	96	-	335
Exploration costs	-	-	-	-	-	-	-	-	-
Total as at September 30, 2008	-	-	-	-	187	52	96	-	335

During the year end September 30, 2009 the Company wrote off exploration and acquisition costs totalling $181,000 (2008 - $5,893,000), until the Company determines the project to have a definitive resource potential as defined by a National Instrument (NI 43-101) report.

In addition the Company wrote down recoverable taxes in the amount of $18,000 (2008 - $163,000). In 2009 the total amount of these write downs was $199,000 (2008 - $6,056,000)

(expressed in thousands of U.S. dollars)

a. Catedral

The Company owns 50.1% of the Catedral prospect through its subsidiaries Catedral and CM Catedral, which encompasses the Catedral and Rino limestone deposits. The deposits are hosted by the Los Valdes Formation, which stretches along a significant distance of the high Cordillera. Two officers and directors hold the remaining non-controlling interest in Catedral (note 16).

On another portion of the concession, an agreement was signed in which CM Catedral must pay the owner of the concession $150,000 on January 25, 2010. The owner has the option to receive payment in shares of the Company at a discount of 15% from the then market price per share, but not at a price less than CA$0.20 per share. The Company can prepay the $150,000 at any time.

The Company wrote off the balance of $43,000 for the year ended September 30, 2009 (2008 - $3,492,000) in mining properties and explorations costs on Catedral as the properties had been on care and maintenance for more than three years.

b. Cal Norte

In July 1999, the Company entered into a formal agreement with Compañía Minera Quelon (Quelon) for the formation of Cal Norte. Under the agreement, the Company acquired a 60% interest in Cal Norte, consisting principally of exploration properties, valued at $332,000. This acquisition was funded by the non-controlling interest. Other assets and liabilities of Cal Norte were insignificant. Quelon contributed its mining equipment, related mine facilities and limestone deposits. The Quelon mining properties are located north of Santiago, Chile. The Company has agreed to fund up to $1,800,000 to Cal Norte as its contribution toward a project to develop a manufacturing operation (note 15).

As at September 30, 2009, the Company had contributed $1,541,000 (2008 - $1,534,000) to finance a bankable feasibility study on the project and for environmental permitting and further mine development on the project. Although the Company has incurred sufficient explorations expenditures to maintain the Property in good standing until September 30, 2009, it wrote off the carrying value of $7,000 (2008- $1,534,000) during the current year as the property had been on care and maintenances for more than three years.

c. Pimenton - Porphyry

The Company has incurred sufficient explorations expenditures to maintain the Pimenton porphyry in good standing. As of September 30, 2009, it wrote off $nil (2008- $411,000) during the current year as the property had been on care and maintenances for more than three years.

d. Chachas

The Company has taken the decision not to continue with this project. Therefore the Company wrote off the balance of $172,000 as at September 30, 2008 in mining properties and explorations costs.

(expressed in thousands of U.S. dollars)

e. Tordillo

The Company holds mining claims on Tordillo which is located south-southwest of Pimenton. It is in the early exploration stage and to date the Company has identified several gold vein structures similar to those at Pimenton and an area of potential porphyry copper mineralization. The preliminary data suggests Tordillo contains the upper part of a deep-seated copper/gold and possibly copper molybdenum porphyry system associated with narrow high grade gold and copper veins which may be widespread and represent a separate exploration target. Tordillo is located in an area of intense exploration activity. Tordillo was acquired by the Company in 2006.

f. Bandurrias

An interest in Bandurrias, a copper prospect, was acquired by the Company in August 2007 by way of an option agreement. Under the terms of this option agreement, $30,000 was paid on signing; $70,000 was due nine months after signing, followed by four payments of $100,000 every nine months, with a final payment at 36 months of $600,000. The balance of the $6,500,000 price, being $5,400,000, was to be paid in the form of a 5% net smelter royalty. In April 2008, the Company did not renew its option agreement on Bandurrias and wrote off $214,000 in 2008 relating to this option agreement, but acquired an interest in a property surrounding the Bandurrias Prospect area in which the company held a 100% interest. In June, 2009 the Company did not renew certain claims, and the Company wrote off the balance of claims costs totalling $52,000.

g. La Bella

The Company has signed an option agreement to earn a 100% interest on this project on December 7, 2007. Under the terms of the Option Agreement (inner circle) the Company has paid $30,000 and $70,000 was paid in December 2008, $232,121 in December 2009, $928,485 in December 2010, $1,044,545 in December 2011 and $1,160,606 in December 2012. The Company will pay a 2 ½% Net Smelter Royalty to the optionee from production thereafter.

Regarding the outer circle, the Company paid $100,000 in December 2008. The remaining payment obligation of $116,060 was due on December 2009 however it was deferred to February 26, 2010 due to access problems to the prospect. Future payments due in December of each year have been also deferred two months as follows: $580,303 to February 2011, $812,424 to February 2012, $1,160,606 to February 2013 and $3,017,575 to February 2014. The Company has an obligation to pay a 2½% net smelter royalty to the optionee of the outer circle from production thereafter.

In addition on the inner and outer circle the Company has a combined minimum exploration obligation of $50,000 in year one, $250,000 in year two and $700,000 in year three. The Company has taken the decision to expense certain of its explorations costs amounting to $79,000 for the year ended September 30, 2009 (2008 - $31,000).

(expressed in thousands of U.S. dollars)

8 Receivables

Receivables consist of:

	2009 $	2008 $
Accounts receivable	335	96
Other sundry receivables	98	14
	433	110

9 Share capital

a) Authorized capital

The authorized capital of the Company consists of an unlimited number of common shares, with no par value.

b) Issued and outstanding

	Number of shares	Amount $
Balance – September 30, 2007	570,842,904	63,628
Warrants exercised (i)	9,936,090	680
Private placement (ii)	92,375,000	2,625
Private placement (iii)	4,928,485	143
Share issuance (iv)	5,340,773	236
Share issuance (v)	2,000,000	90
Warrants exercised (vi)	735,500	42
Warrants exercised (vii)	700,000	39
Share issuance (viii)	1,000,000	45
Share issuance (vix)	2,394,140	117
Private placement (x)	38,275,822	1,610
Balance – September 30, 2008	728,528,714	69,255
Private placement (xi)	19,408,620	274
Private placement (xii)	1,663,182	23
Private placement (xiii)	42,839,654	1,367
Balance – September 30, 2009	792,440,170	70,919

(expressed in thousands of U.S. dollars)

i) On October 31, 2007 participants in the December 10, 2003 private placement exercised 9,936,090 warrants at a price of CA$0.04 per share for net proceeds of $390,446. The fair value of $288,703 assigned to these warrants was transferred to share capital.

ii) On December 17, 2007, the Company sold through a private placement 92,375,000 units at CA$0.0416 per unit, each unit consisting of one common share and one half of one common share purchase warrant to purchase a further common share at CA$0.06 per share at any time within two years of the date of issue. In connection with this private placement, the Company also issued 5,616,937 broker warrants, each exercisable at CA$0.06 per share, expiring within two years of the date of issue. Net proceeds of the placement were $3,397,626, of which $697,075 was assigned to the warrants and $84,772 was assigned to the broker warrants using the Black-Scholes valuation model, assuming a risk-free interest rate of 4.75%, no dividend and a volatility factor of 80%.

iii) On June 20, 2007, the Company sold through a private placement 26,431,515 units at CA$0.05 per unit, consisting of one common share and one common share purchase warrant to purchase a further common share at CA$0.07 per share at any time within 36 months of the date of issue. Net proceeds of the placement were $1,174,978, of which $184,076 was assigned to the warrants. The fair value of the warrants was assigned using the Black-Scholes valuation model assuming a risk-free interest rate of 3.23%, no dividend and a volatility factor of 50%. On January 15, 2008, the remaining 4,928,485 units were issued on the same terms as above. Net proceeds of the placement were $220,022, of which $77,818 was assigned to the warrants. The fair value of the warrants was assigned using the Black-Scholes valuation method assuming a risk-free interest rate of 2.8%, no dividend and a volatility factor of 80%. The subscriber, an officer and director of the Company, subscribed and paid for all of 31,360,000 units of this private placement.

iv) On January 15, 2008, the Company issued 5,340,773 common shares in settlement of two employee wage liabilities of $236,071. The shares were valued at $236,071, using the TSX closing price on January 15, 2008 resulting in no gain or loss.

v) On February 1, 2008, the Company entered into a retirement agreement with the former Chief Financial Officer under which he received 2,000,000 Bonus Shares. The shares were valued at $90,270, using the TSX closing price on January 31, 2008.

vi) In March 2008, broker participants in the February 22, 2007 private placement exercised 735,500 broker warrants at a price of CA$0.04 per share for net proceeds of $29,420. The fair value of $12,087 assigned to these warrants was transferred to share capital.

vii) In April 2008, broker participants in the February 22, 2007 private placement exercised 700,000 broker warrants at a price of CA$0.04 per share for net proceeds of $27,635. The fair value of $11,504 assigned to these warrants was transferred to share capital.

viii) On April 29, 2008 an officer and director received 1,000,000 bonus shares valued at $44,474 using the TSX closing price of CA $0.045 per share.

(expressed in thousands of U.S. dollars)

ix) On May 23, 2008, 2,394,140 shares were issued to two officers (Executive-Vice-President, Claims and Land Management and Executive-Vice-President and Director of Exploration) who are also Directors, in payment of interest due to them on $1,600,000 of convertible subordinated debentures. The shares were valued at $116,999 using the TSX proceeding day closing price.

x) On September 9, 2008, the Company sold through a non broker private placement 38,275,822 Units. Three Directors, two of whom are also officers of the Company purchased 22,000,000 Units of the private placement. Each Unit was priced at $0.05. Each Unit consists of one common share and one-half warrant. Each whole warrant is exercisable for a period of two years from the date of closing at an exercise price of $0.07. Net proceeds of the placement were $1,872,421, of which $ 262,270 was assigned to the warrants. The fair value of the warrants was assigned using the Black –Scholes valuation model, assuming a risk-free interest rate of 2.88%, no dividend and a volatility factor of 80%.

xi) On December 12, 2008, the Company sold through a private placement 19,408,620 units at CA$0.025 per unit, consisting of one Common Share and one half Common Share purchase warrant to purchase a further common share at CA$0.045 per share at any time within 24 months of the date of issue. In addition, the placement agent received 1,209,888 common stock purchase warrants exercisable for 24 months from the date of issuance at CA$0.025 per share. Net proceeds of the placement were $361,000, of which $88,345 was assigned to the warrants. The fair value of the warrants was assigned using the Black-Scholes valuation model assuming a risk-free interest rate of 2.8%, no dividend and a volatility factor of 100%.

xii) On March 6, 2009, 1,663,182 Common Shares valued at CA$0.035 were issued for services rendered to the Cmpany and for the purchase of a vehicle. The shares were valued at $45,945 using the TSX closing price on February 23, 2009. In addition the Company issued 1,414,050 common stock purchase warrants exercisable for 24 months from the date of issuance at CA$0.036 per share. The warrants were valued at $23,390. The fair value of the warrants was assigned using the Black-Scholes valuation model assuming a risk-free interest rate of 1.4%, no dividend and a volatility factor of 120%.

xiii) On June 9, 2009 the holders, Mr. David R.S. Thomson and Mr. Mario Hernández both Executive Vice Presidents and directors of the Company elected to convert the $1,600,000 convertible secured debenture which was issued to them in 2006 and was due to mature on March 31, 2013 into 28,108,288 Shares at a conversion price $0.0569 per shares. These shares were valued at $903,662 using the TSX closing price of CA$0.035 on June 9, 2009 resulting in a gain of $1,024,658, of which $392,276 was recorded as other income and $632,382 was recorded as deficit. Also, on June 9, 2009, 2,469,571 Common Shares valued at CA$0.035 were issued to Mr. David R.S. Thomson and Mr. Mario Hernández, in lieu of interest payments, due for the period of March 31, 2008 to March 31, 2009 on the $1,600,000 Convertible Debenture issued to it in 2006, the shares were value at $73,913. Also on June 9, 2009, Mr. David R.S. Thomson and Mr. Mario Hernández converted $507,022 of leases secured by certain mining equipment into 12,261,795 Common Shares of the Company. The shares were value at $0.035 using the TSX closing price per share on March 9, 2009 and resulted in a gain of $116,935.

(expressed in thousands of U.S. dollars)

c) Share option plan

The Company has a share option plan (the Plan) whereby, from time to time at the discretion of the Board of Directors, share options are granted to directors, officers, employees and certain consultants. The maximum number of common shares issuable under the Plan is 162,278,824 common shares and 45,000,000 common shares issuable under the share bonus plan, within the Plan to eligible participants. The Board of Directors determines the vesting period at its discretion.

A summary of the Company's Plan for the years ended September 30 is as follows:

	$	Number of options	Weighted average exercise price CA$
Balance – September 30, 2007	1,019	61,395,000	0.074
Changes during the year			
Granted (i)	-	29,289,538	0.045
Vesting	399	-	
Expired	-	(735,000)	0.056
Balance – September 30, 2008	1,418	89,949,538	0.065
Changes during the year			
Granted (ii)	-	3,660,462	0.040
Vesting	253	-	
Expired	(192)	(8,000,000)	0.090
Balance – September 30, 2009	1,479	85,610,000	0.060

i) On March 13, 2008 the Company issued 25,000,000 Common Stock Options exercisable at CA.$ 0.045 per share for a period of four years from the date of issuance, which were issued to the President of the Company (10,000,000 options) and three new Directors and two Serving Directors who are not officers of the Company (15,000,000 options). The fair value of these options was estimated to be $747,447 using the Black –Scholes valuation model, assuming a risk-free rate of 3.6%, no dividend, and volatility factor of 80%, and a vesting period between date of grant and four years. In addition, seven employees, who are not officers of the Company, were awarded a total of 1,950,000 common stock options, having a five years life with immediate vesting at a price of CA$0.045 per share. The fair value of these options was estimated to be $57,595 using the Black – Scholes valuation model, assuming a risk-free rate of 3.6%, no dividend, and volatility factor of 80%. On April 30, 2008, 2,339,538 Common Stock Options were granted to a new director of the Company at an exercise price of CA$0.05 per share, exercisable for a period of four years from the date of issuance, and vesting period is between date of grant and four years. The fair value of these options was estimated to be $76,360 using the Black –Scholes valuation model, assuming a risk- free rate of 3.04%, no dividend and volatility factor of 80%.

ii) On May 12, 2009, 3,000,000 Options were granted to the Chief Financial Officer of the Company at an exercise price of CA $0.04 per share, exercisable for a period of two years, 1,000,000 to vest immediately, 1,000,000 to vest one year from the date of grant, and the balance of 1,000,000 to vest

(expressed in thousands of U.S. dollars)

on the second anniversary of the date of grant. The fair value of these options was estimated to be $88,128 using the Black –Scholes valuation model, assuming a risk- free rate of 2.1%, no dividend and volatility factor of 120%. In addition, on May 12, 2009, 660,462 Options were granted to a director of the Company at an exercise price of CA $0.04 per Share, exercisable until April 30, 2013 to vest in a period of three years from the date of grant. The fair value of these options was estimated to be $19,402, using the Black –Scholes valuation model, assuming a risk- free rate of 2.1%, no dividend and volatility factor of 120%.

The Company recognized the total stock based compensation of $253,779 in 2009 (2008 - $442,533 of which $44,314 charged to mine development and $398,259 charged to stock based compensation).

Options outstanding as at September 30, 2009 are as follows:

				2009
Exercise price CA$	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price CA$**	**Options exercisable**
0.075	2,000,000	0.14	0.075	2,000,000
0.070	13,695,714	0.51	0.070	13,695,714
0.065	5,714,286	1.42	0.065	5,714,286
0.040	10,000,000	2.74	0.040	10,000,000
0.045-0.090	50,539,538	3.45	0.064	37,335,815
0.040	3,660,462	4.62	0.040	1,264,185
0.040-0.090	85,610,000	2.73	0.065	70,010,000

10 Long-term debt

Description	**Interest rate**	**2009 Principal $**	**2008 Principal $**
OPIC note, due on June 15, 2010 (a)	8.27%	401	677
OPIC note, due on June 15, 2010 (a)	8.39%	532	908
OPIC loan origination expenses		-	(37)
Pimenton note, due on June 15, 2011 (b)	5% under certain conditions	1,895	1,689
Convertible secured debentures, due March 31, 2013 (c)		-	933
		2,828	4,170
Less: Current portion		933	1,560
Long-term debt		1,895	2,610

(expressed in thousands of U.S. dollars)

Interest paid by the Company was $155,653 and $64,856 for the years ended September 30, 2009 and 2008, respectively.

The maturities of long-term debt and related interest payments are as follows:

	Long-term debt $
Fiscal year ended September 30,	
2010	933
2011	1,944
	2,877
Less: Future accretion	49
	2,828

a) Pimenton, a subsidiary of the Company entered into a loan agreement with Overseas Private Investment Corporation (OPIC) dated December 29, 2003. The Company was required to establish a restricted cash account. The balance of this restricted account as at September 30, 2009 and 2008 was $22,000.

The loan is secured by a pledge and security interest in all the shares of SAGC Pimenton Limited and a mortgage and pledge of all the shares of Pimenton owned by SAGC Pimenton Limited and Til Til. In addition, an officer and director of the Company has personally guaranteed 26% of all principal and interest due and all fees and costs due under the loan agreement until the project reaches financial and operational completion, as defined in the loan agreement.

In connection with the OPIC financing, the Pimenton noteholders have agreed to defer the repayment of their note until one year subsequent to the final repayment of the OPIC note.

On January 30, 2004, Pimenton drew down $1,200,000 of the OPIC commitment at an annual interest rate of 8.27%. Interest payments are due semi-annually on June 15 and December 15, commencing on June 15, 2004. Semi-annual principal payments of $133,333 are also due on June 15 and December 15, commencing on December 15, 2004.

During May 2004, Pimenton reached physical completion and on May 25, 2004, Pimenton drew down the second tranche of $1,600,000 of the OPIC commitment at an annual interest rate of 8.39%. Interest payments are due semi-annually on June 15 and December 15, commencing on June 15, 2004. Semi-annual principal payments of $177,777 are also due on June 15 and December 15, commencing on December 15, 2004.

The OPIC notes are carried at amortized cost using the effective interest method. OPIC loan origination expenses of $nil as at September 30, 2009 (2008 - $37,000) are primarily associated with the OPIC loan.

(expressed in thousands of U.S. dollars)

As of June 11, 2009, OPIC has granted Pimenton waivers with respect to the financial and operating events of default until June 15, 2010. The outstanding principal balance on the OPIC loan as of June 11, 2009 was $1,555,555. Pimenton began to repay the principal and interest quarterly on June 15, 2009 with principal repayments of $ 311,111 each quarter. Interest will be paid quarterly at the interest rate applicable to the outstanding amount of each disbursement as set forth in the agreement.

b) In 1996, Pimenton, a wholly owned subsidiary of the Company, purchased from Messrs. Thomson (an executive vice president director of exploration and director of the Company) and Bernstein an additional 44% interest in Pimenton's principal gold prospect, increasing its interest to 100%, and two concessions adjoining this prospect. On the purchase, $2,000,000 was paid, and the payment of the balance of the purchase of a further $2,000,000 was payable before May 29, 1995 for consideration and, subject to certain conditions. The noteholders agreed to extend the due date from May 28, 1998 to December 31, 2000.

On December 29, 2003, in connection with the issuance of the OPIC loan agreement, the Pimenton noteholders agreed to an additional extension of the due dates of the Pimenton notes until one year after the OPIC notes are repaid. These notes were revalued to $976,187. The fair value of these notes was determined using a quarterly risk rate of return of 5%. This refinancing resulted in a gain of $542,805, which was recognized in fiscal 2004.

The Pimenton notes were accreted to $1,894,808 as at September 30, 2009 (2008 - $1,688,949), with $205,859 being charged to interest expense in 2009 (2008 - $183,656). By December 15, 2009, the carrying amount of the notes will have been accreted to $1,943,561, the face amount due on maturity.

Interest on the Pimenton note is 5% per annum, payable only at the end of any 90-day consecutive period and only for that period in which the price of gold trades above US$300 per ounce.

c) On April 13, 2006, the Company completed a private placement of $1,600,000 of convertible secured debentures with a seven-year maturity and bearing interest at LIBOR plus 2% to two officers (executive-vice president director of exploration and executive vice president director, claims and land management) and directors of the Company (note 16). The Company had the option to pay the first year's interest in shares of the Company's common stock at a 20% premium.

For accounting purposes, the convertible secured debentures have a liability component and an equity component, which are separately presented in the consolidated balance sheets. The $1,600,000 face value of the convertible secured debentures has been allocated to the liability and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible secured debentures was measured using the Black-Scholes valuation model, assuming a risk-free interest rate of 4.3%, no dividend and a volatility factor of 50%, and such fair value was credited to contributed surplus. The fair value of the liability component was determined by discounting the future stream of interest and principal payments at an estimated borrowing rate to the Company of 20%. As a result, the Company allocated $907,263 to equity and $692,737 to debt.

(expressed in thousands of U.S. dollars)

The debenture holders were granted a secured interest in the Tordillo exploration project. The Company can call the debentures under certain conditions. The Company can also prepay by giving the lender notice of such prepayment and the lender must accept such prepayment or convert within a certain time period.

On June 9, 2009 the holders, Mr. David R.S. Thomson and Mr. Mario Hernandez both Executive Vice Presidents and directors of the Company elected to convert the $1,600,000 convertible secured debenture which was issued to them in 2006 and was due to mature on March 31, 2013 into 28,108,288 shares at a conversion price $0.0569 per share. These shares were valued at $903,662 using the TSX closing price of CA$0.035 on June 9, 2009 resulting in a gain of $1,024,658, of which $392,276 was recorded as other income and $632,382 was recorded against accumulated deficit.

11 Warrants

	Number of warrants	$
Balance – September 30, 2007	175,583,372	2,688
Exercised (note 9(i))	(9,936,090)	(288)
Issued (note 9(ii))	51,804,437	783
Issued (note 9(iii))	4,928,485	78
Exercised (note 9(vi))	(735,500)	(12)
Issued (note 9(vi))	735,500	3
Modified (a)		48
Modified (c)		34
Exercised (note 9(vii))	(700,000)	(11)
Issued (note 9(vii))	700,000	3
Issued (note 9(x))	19,137,911	262
Expired warrants	(68,095,087)	(1,872)
Balance - September 30, 2008	173,423,028	1,716
Issued (note 9(xi))	10,914,198	88
Issued (note 9(xii))	1,414,050	23
Expired warrants	(65,120,680)	(373)
Balance – September 30, 2009	120,630,596	1,454

a) On October 21, 2004, the Company sold through a private placement 40,000,000 units at CA$0.07 per unit, each unit consisting of one common share and one half of one common share purchase warrant to purchase a further common share at CA$0.09 per share at any time within 24 months of the date of issue. These warrants were assigned a value of $276,806. On October 16, 2006, the TSX agreed to extend the expiration date on the 20,000,000 warrants from October 21, 2006 to October 22, 2007. The fair value of these modified warrants of $47,885, in excess of the fair value of the original warrants immediately prior to the modification date of $nil, was charged to expense. The fair values of the warrants were assigned

using the Black-Scholes valuation model, assuming a risk-free interest rate of 4.07%, no dividend and a volatility factor of 80%.

On October 3, 2007, the TSX agreed to further extend the expiration date on the 20,000,000 warrants from October 22, 2007 to April 22, 2008 when they expired. The fair value of these modified warrants of $6,028, in excess of the fair value of the original warrants immediately prior to the modification date of $nil, was charged to expense. The fair values of the warrants were assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 4.21%, no dividend and a volatility factor of 80%.

b) On November 8, November 16 and November 30, 2005, 16,635,628 warrants were exercised at a price of CA$0.055 per common share resulting in the issuance of 16,635,628 common shares and 16,635,628 common share purchase warrants to purchase a further common share at CA$0.07 per share at any time within 24 months of the date of issue. Net proceeds of the exercise of warrants were $699,830, of which $152,622 was assigned to the warrants using the Black-Scholes valuation model, assuming risk-free interest rates of 3.68% to 3.73%, no dividend and a volatility factor of 50%. The $226,910 fair value originally assigned to these warrants and $40,050 of the fair value assigned to modified warrants was transferred to share capital.

On October 25, 2007, the TSX agreed to extend the expiration date on the 16,635,628 warrants from November 8, November 16 and November 30, 2007 to January 31, 2008. The fair value of these modified warrants of $34,333, in excess of the fair value of the original warrants immediately prior to the modification date of $nil, was charged to expense. The fair values of the warrants were assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 3.97%, no dividend and a volatility factor of 80%. These warrants were further extended to March 31, 2008, at which time they expired.

The following table summarizes information about the warrants outstanding as at September 30, 2009:

		2009
Number of warrants outstanding	**Weighted average remaining warrant life (years)**	**Weighted average exercise price CA$**
51,804,437	0.22	0.060
56,483,624	0.89	0.065
12,342,535	1.52	0.044
120,630,596	0.67	0.061

(expressed in thousands of U.S. dollars)

12 Contributed surplus

	2009 $	2008 $
Balance - beginning of year	2,580	708
Warrants expired (note 11(a))	373	1,872
Options expired (note 9(c))	192	-
Balance - end of year	3,145	2,580

13 Reclamation and remediation

The Company's mining and exploration activities are subject to various Chilean laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are becoming more restrictive. Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate on which the estimated cash flows have been discounted. The total undiscounted amount of estimated cash flows of $3,825,000 is expected to be incurred over a period extending to ten years. These estimated cash flows are discounted using a credit-adjusted risk-free rate of 7.5%. The actual asset retirement obligation and closure costs may differ significantly based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

The Company's reclamation and remediation liability as at September 30 is summarized as follows:

	2009 $	2008 $
Balance - Beginning of year	1,856	884
Increase in liabilities (i)	-	972
Accretion (ii)	139	-
Balance - End of year	1,995	1,856

i) The increase is due to changes in estimated future costs.

ii) The Pimenton Mine was declared to be in commercial production at October 1, 2008. Effective this date reclamation and remediation are discounted and expenses were $139,190 for the year ended September 30, 2009 (2008-$nil).

14 Segment information

The Company has one operating segment, which is the exploration and development of mineral properties. The Company's principal operations are carried out in Chile. The Company's geographic segments are located as follows:

i) the Company's mineral properties in Chile

ii) corporate offices in Chile and Canada;

(expressed in thousands of U.S. dollars)

The Company's Pimenton segment includes a gold mine and mill operating in Chile. The corporate segment includes all exploration and development activities, primarily in Chile.

As at and for the years ended September 30, 2009 and 2008, segmented information is presented as follows:

			2009
	Pimenton	**Corporate**	**Total**
	$	**$**	**$**
Revenues	10,316	-	10,316
Operating cost	(8,476)	(19)	(8,495)
Other income (expenses)			
Write-off of exploration properties	-	(199)	(199)
General and administrative	(652)	(757)	(1,409)
Stock-based compensation	-	(254)	(254)
Foreign exchange	145	(7)	138
Interest expense	(229)	(265)	(494)
Other expenses	(61)	-	(61)
Other income	53	509	562
Total other income (expenses)	(744)	(973)	(1,717)
Income (loss) for the year	1,096	(992)	104
Total assets	23,682	(1,647)	22,035

			2008
	Pimenton	**Corporate**	**Total**
	$	**$**	**$**
Other income (expenses)			
Amortization	(15)	-	(15)
Temporary mine shutdown	(50)	-	(50)
Write-off of exploration properties	-	(6,056)	(6,056)
General and administrative	(556)	(994)	(1,550)
Stock-based compensation	-	(398)	(398)
Warrant revaluation	-	(90)	(90)
Foreign exchange	28	228	256
Interest expense	(599)	(222)	(821)
Other income	15	-	15
Minority interest	-	139	139
Total other income (expenses)	(1,177)	(7,393)	(8,570)
Income (loss) for the year	(1,177)	(7,393)	(8,570)
Total Assets	21,639	(908)	20,731

(expressed in thousands of U.S. dollars)

Of the corporate segment's losses of $992,000 and $7,393,000 in 2009 and 2008, respectively, approximately $199,000 and $6,144,000, respectively, relate to Chilean activities, with the remainder reflecting primarily corporate's activities in Canada, the United States and Bermuda.

15 Commitments

a) Project commitments

Project	Description	Total potential commitment $	Paid to date $
Catedral and Rino	A loan for development costs	up to 2,500	250
	To the owner of another section of the property - $275,000 - issuance of 1,824,815 common shares of the Company valued at $125,000, and the balance of $150,000 due on January 25, 2010, payable at owner's option in the Company's shares issued at a 15% discount from the market value at that date, but not less than CA$0.20 per common share; the Company can prepay this amount at any time.		125

(expressed in thousands of U.S. dollars)

La Bella	La Bella inner was acquired in December 2007 by the Company by way of an option agreement of the property. Under the terms of the option agreement $10,000 was paid on signing; $20,000 was paid in ninemonths;$70,000 was paid at the end of the first year; $232,121 at the end of the second year; $928,485 at the end of the third year, $1,044,545 at the end of the fourth year and $1,160,606 at the end of the fifth year. The Company will pay a 2 ½% Net Smelter Royalty from production thereafter. The Company also has a minimum investment obligation of $50,000 in year one; $250,000 in year two and $700,000 in year three On the outer circle the Corporation paid $100,000 in December 2008 with the remaining payment obligations of $116,060 in December 2009 since deferred to February 26, 2010 due to access problems to the prospect and future payments have been deferred by one month to $580,303 in February 2011, $812,424 in February 2012, $1,160,606 in February 2013 and $3,017,575 in February 2014. The Corporation has an obligation to pay a 2½% net smelter royalty to the optionee of the outer circle from production thereafter.	9,000	200
Cal Norte	Capital contribution of $1,800,000 to earn 60% equity interest	1,800	1,541

b) Lease commitments

The Company is committed to future minimum lease payments under capital lease arrangements:

Year ending	September 30, $
2009	8,530
2010	34,119
2011	14,355
	57,004
Interest	(6,617)
	50,387

(expressed in thousands of U.S. dollars)

From the total capital lease obligation held by the Company at September 30, 2009 $nil, (2008 - $359,000) is due to related parties and has been allocated: $123,235 in the short-term portion and $235,863 in the long-term amounts due to related parties.

16 Related party transactions

A company owned by the Chief Executive Officer (the "CEO") of South American Gold and Copper Company Limited (who is also a director) billed the Company $64,220 in 2009 (2008 - $78,286) for the provision of office space and services used by the Company. Receivable from an officer and director of the Company of $240,574 in 2009 (2008 - $152,978) is the net amount of non-interest-bearing note receivable compensations and advances to the CEO. The note is due on June 30, 2010 and is collateralized by 6,532,000 Common Shares owned by this officer and director.

The former Chief Financial Officer of the Company retired on February 6, 2008 at which time he was owed $207,260. The Company entered into a retirement agreement with the former Chief Financial Officer under which he received 2,000,000 Bonus Shares and was paid $17,648 for the difference between the net sales price of the 2,000,000 Bonus Shares and $100,000. In addition he has been paid $5,000 per month beginning February, 2008 and continued to be paid at the rate of $5,000 per month until February 28, 2009. Beginning in March, 2009 he was paid $12,500 per month until the net balance has been paid. Effective September 30, 2009 the former chief financial officer was paid in full (2008 - $67,260) The former Chief Financial Officer billed $nil for accounting services rendered to the Company in 2009 (2008 - $63,279).

A company controlled by the current Chief Financial Officer of the Company (the "CFO") billed the Company $32,845 for accounting and administration services rendered in the period ended September 30, 2009 (2008 - $20,731). Amounts due to related parties include payables to this officer of $7,057 for such services at September 30, 2009 (2008 - $9,051).

During 2007, the Executive Vice-President Director, Claims and Land Management, who is also a director of the Company, purchased an interest in the Pimenton notes and royalty from a non-related party. The present value of this note was $957,793 at September 30, 2009 (2008 - $876,378) and interest expense was $48,432 in 2009 (2008 - $48,879). Amounts due to related parties include $242,358 (2008- $195,238) for interest and $398,136 for royalties as at September 30, 2009 (2008 - $101,646).

Amounts due to related parties include $243,984 and $193,926 as at September 30, 2009 and 2008, respectively, for interest due to executive vice president director of exploration who is also a director of the Company who holds one of the Pimenton notes in the present value amounts of $951,683 and $870,787 as at September 30, 2009 and 2008, respectively, and interest expense was $48,746 in 2009 (2008 – $48,879). In addition, amounts due to related parties include $398,136 and $101,645 as at September 30, 2009 and 2008, respectively, for royalties due to this officer and director who is the owner of a net smelter royalty on the Pimenton gold mine and include a cash advance of $8,909 which was provided to the Company in July 2008.

In June 2008, the Executive Vice-President and Director of Exploration, who is also a director of the Company agreed to guarantee the payment of a 37-month lease purchase agreement entered into by the Company on February 23, 2008 with a local Chilean bank for the purchase of certain equipment which purchase price was $150,672. The Company compensated the Executive Vice-President and Director of Exploration for guaranteeing the payment of a lease agreement with the conversion of the lease debenture totalling $72,233.

(expressed in thousands of U.S. dollars)

Two officers and directors of the Company hold the non-controlling interest in Catedral. Under an agreement dated November 27, 1996, the Company agreed to provide or cause to provide these officers and directors a loan of up to $1,250,000 each or $2,500,000 in total. Such loans are to pay their proportionate share of development costs if a bankable feasibility study demonstrates that the properties can be placed into commercial production, and to fund their combined 50% share of an option payment totalling $500,000, which was paid during 1997.

On July 11, 2008, the Executive Vice President and Director of Land and Administration, who is also a director of the Company bought from CMP, a vehicle. The sale price of the vehicle was $13,575 inclusive of VAT tax at 19%. The transaction generated a $5,326 loss to the Company. Amounts receivable from related parties include $13,735 for this transaction at September 30, 2008 (2008 – $12,884).

In 2001, the Board of Directors and Compensation Committee approved the granting of a 3.2% net smelter royalty interest on Tordillo, a 2.5% net smelter royalty interest on both the inner circle and out circle of claims on La Bella to the CEO, the Executive Vice President and Director of Exploration and the Executive Vice President and Director of Administration who are also directors of the Company.

17 Supplemental cash flow information

	2009 $	2008 $
Changes in non-cash working capital relating to operations		
Receivables	(228)	(132)
Materials and supplies	(38)	(109)
Recoverable taxes	(415)	(489)
Accounts payable and accrued liabilities, excluding interest in accrued liabilities	124	121
Taxes payable (VAT)	33	24
Amounts due to related parties	(273)	(17)
	(797)	(602)
Significant non-cash financing and investing activities		
Shares and warrants issued	(1,303)	(92)
No income taxes were paid during 2009 and 2008		
Total interest paid	127	256

(expressed in thousands of U.S. dollars)

18 Management of Financial Risk

The Company's financial instruments are exposed to financial risks as summarized below:

Credit Risk

The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to receivables is remote.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. As at September 30, 2009, the Company had a positive working capital of approximately $490,000 which included cash of $855,000. At September 30, 2009 the Company's accumulated deficit was approximately $63,089,000 and shareholders' equity was approximately $13,908,000.

To preserve its cash position the Company plans to concentrate its efforts on Pimenton.

Sensitivity Analysis

As of September 30, 2009, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

The Company believes the following movements are "reasonably possible" over a twelve-month period:

(i) There would be no impact on the cash held as the Company does not earn any interest on this cash.

(ii) The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

Economic dependence

The Company's sole customer ENAMI the Chilean national mining company, had purchases representing 100% of sales during the year and has 77% of the accounts receivable balance as at September 30, 2009. See also Note 1(h).

19 Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties.

The acquisition, exploration, financing and development of natural resources require the expenditure of significant funds before production commences. Historically, the Company has financed these activities

(expressed in thousands of U.S. dollars)

through the issuance of common shares, the exercise of options and common share purchase warrants, promissory notes and debentures, bank debt and extended terms from creditors.

The Company has not declared or paid any dividends and does not foresee the declaration or payment of dividends in the near future. Any decision to pay dividends on its shares will be made by the board of directors on the basis of the Company's earnings, financial requirements and other conditions existing at such future time.

20 Comparative amounts

Certain of the prior year's amounts have been reclassified to conform to the current year's consolidated financial statement presentation.

Directors* and Officers

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Chairman
Executive Vice President and Director
Loewen, Ondaatje, McCutcheon & Company
Limited, Toronto, Canada

Stephen W. Houghton*
New York, New York
Chief Executive Officer
Founder of South American Gold and Copper
Company Limited

Patrick Esnouf*
Santiago, Chile
President

Mario Hernandez A.*
Santiago, Chile
Executive Vice President and Director, Claims and Land Management

William Hill*(1)
Rock wood, ON, Canada
Principal, William Hill Mining Consultants, Ltd.

Juan A Proaño*
Potomac, Maryland

Frederick D. Seeley*(1),(2)
New York, New York
Chairman, Givens Hall Bank and Trust Limited,

David R. S. Thomson*
Santiago, Chile
Executive Vice President and Director of Exploration

John J. Selters*
Santiago, Chile

Richard J. Lachcik*
Toronto, ON, Canada

Peter W. Hogg
Toronto, ON, Canada
Chief Financial Officer

(1) Member, Audit Committee
(2) Member, Compensation Committee

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