SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

Annual Report to Shareholders
2010

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, 2010 and 2009, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of December 10, 2010. 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, management's beliefs regarding the value of its deposits, expectations with respect to the level and funding of working capital, the expected increase in concentration of gold in its Knelson concentrate resulting from the new gold table and gold furnace 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.

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 year ended September 30, 2010 and for its future prospects. It consists of the following subsections:

- Overall Performance
- Capacity to Deliver Results
- Results of Operations
- Summary of Quarterly Results
- Related Party Transactions
- Outstanding Share Information
- Risk Factors
- Critical Accounting Policies
- International Financial Reporting Standards
- Disclosure Controls and Procedures
- Internal Control Over Financial Reporting

Overall Performance

The Company's Pimenton gold/copper mine is a narrow high grade gold/copper mine located in the high mountain range of Chile. Its location means it is subject to snow and avalanches that may increase operating costs and can cause temporary shut downs during the Chilean winter season. Mining costs in a narrow high grade mine such as Pimenton can also be higher on a cost per ton basis than in an underground larger vein mine.

The Company's sales of gold, copper and silver for the year ended September 30, 2010 were slightly above the year ended September 30, 2009 due to increased prices of gold, copper and silver but actual ounces of gold and silver and pounds of copper sold were below the year ended September 30, 2009. A part of the Company's Pimenton gold mine was partially closed by the Chilean Regulatory authorities due to a fatal mining accident which occurred in a productive section of the mine. This impacted mine operations from June 2009 until the first half of the year ended September 30, 2010.

Problems with equipment and lack of skilled mechanics lead to delays in the development program already adversely affected by the accident. This in turn lead to production plan delays as higher grade stopes where not prepared in time to meet production grade

estimates. As a result of mining from lower grade stopes the head grade dropped to 8.9g/t Au and 0.53% Cu during the first six months of the year. For the last six months of the year the head grade increased to 12.1 g/t and 0.59% Cu.

In addition, mine operating expenses increased during the year ended September 30, 2010 primarily due to higher labor costs as wage pressure increased combined with hiring of more miners to prepare the mine for the planned production increases. As mentioned above, productivity was significantly affected by low mine equipment availability due to maintenance issues.

The regulatory problem has been resolved and the mine equipment availability problems have been improved with an aggressive hiring and parts purchasing program. The total fleet of available mining equipment is being increased by 100% and should be in operation by late January 2011. The Company expects the mine to gradually increase production above current tons per day during the year ending September 30, 2011 at current reserve grades.

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 enhance 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 September 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 had planned to gradually increase production to 150 tons per day in 2010 with a further increase to 200 tons per day in mid 2011. These plans have not been achieved primarily due to mining equipment failures which plagued the Company during a part of 2010. The Company has partially solved this problem and expects production to move up to 150 tons per day by mid 2011 and to reach 200 tons per day by year end 2011. At the present rate of production, proven and

probable reserves are sufficient for four years of production. In addition the Company is currently working to convert 321,000 tons of drill indicated resources as defined in the Company's December 31, 2010 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 new 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 understanding 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 American"), 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 during the 2010-2011 exploration season and may conduct further drilling on the prospect.

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.

La Bella

The Company has signed an option agreement (the "La Bella Option Agreement") to earn a 100% interest on claims covering approximately 5,900 hectares (14,573 acres) on the

La Bella prospect area (formerly the inner circle"). The Company has also put down additional claims covering the El Chilque project area (formerly the outer circle") to earn a 100% interest which encompasses an additional area of approximately 24,900 hectares (61,500 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 30,800 hectares (76,073 acres) of total claims held by the Company. In addition, geochemical soil sampling is being carried out on the vein outcrops. Subsequent drilling will be based on geochemical results.

The Corporation has made the decision that the exploration results to date do not justify paying the option payments which are due to be paid in December 2010 and January 2011 and is currently attempting to reach a revised agreement with the claims owner.

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.

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.

Bandurrias

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.

The Company has made the decision not to renew its claims on the Bandurrias prospect. This prospect has now been abandoned.

Capacity to Deliver Results

Pimenton gold mine

On August 26, 2010 CMP paid in full the OPIC loan..

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 focusing its attention to Pimenton. The Company wrote off the balance of its mining property costs and exploration costs totalling $272,190 in September 2010 (2009- $nil).

La Bella

During the year ended September 30, 2010, the Company wrote off a total of $1,015,417 (2009 - $79,000) relating to mining property costs and exploration costs on the La Bella.

Limestone deposits

As at September 30, 2010, the Company had contributed $3,743,000 (2009 - $3,535,000) 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. At September 30, 2009 the Company wrote off the balance of $3,535,000 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. During the year ended September 30, 2010, the Company wrote off an additional $207,756 (2009 - $43,208) relating to mining property costs on the Catedral/Rino.

As at September 30, 2010, the Company had contributed $1,545,000 (2009 - $1,541,000) 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 2009 the Company wrote off the balance of $1,541,000 in mining property costs and exploration costs as the properties had been on care and maintenance for more than three years as it focuses its efforts on its Pimenton gold mine. During the year ended September 30, 2010, the Company wrote off an additional $4,012 (2009 - $7,000) of mining property costs.

Result of Operations – 2010

The Company reported net loss of $5,248,000 for the year ended September 30, 2010 compared to income of $104,000 in 2009. A part of this loss was caused by the Company's decision to write off its mining property costs and exploration costs which totaled approximately $2,240,000, including exploration costs of $718,000 incurred on projects where the resource potential has not yet been determined.

For the year ended September 30, 2010, revenue from gold sales were $9,998,000 or 8,598 ounces (2009 - $9,176,000 or 10,607 ounces) and from copper and silver sales were $951,000 (2009 - $1,140,000).

Operating expenses were $9,827,947 in the twelve months ended September 30, 2010 compared to $6,892,346 for the same period in 2009. The increase of $2,935,601 during the twelve months period ended September 30, 2010 consisted of mine expenses $1,754,141 (of which $1,236,154 related to salary increase; fuels and lubricant increased by $124,997; and material and services increased by $392,990); plant operations $189,091; maintenance and operation of road $332,460; management $20,903 camp $587,030 (of which salary increased by $268,524; fuel and lubricant increased by 143,492; and material and services increased by 175,014); transportation of concentrate $21,482; royalties $40,373; and health clinic & safety and others $100,201. This was offset by a reduction in smelting, refining and metallurgical charges of $110,080.

The estimated cash flow of reclamation and remediation of $3,825,000 is expected to be incurred over a period extending to ten years calculated at the present value on September 30, 2010. This estimated cash flow is discounted using a credit –adjusted risk-free rate of 7.5%. Reclamation and remediation discounted at 7.5% for the twelve months period ended September 30, 2010 was $149,629 (2009 - $139,190)

Amortization expenses were $596,228 in the twelve months ended September 30, 2010 (2009 - $722,684) due to the start 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, 2010 was $916,156 compared to $741,662 for the same period in 2009. The increase of $174,494 was due to mining equipment purchases.

General and administrative costs increased by $372,894 for the twelve months ended September 30, 2010 as compared to the same period in 2009. Salaries increased by

$232,170 of which $98,919 was compensation of salary to the Chief Executive Officer (the "CEO") of the Company, for the period of January 1, 2009 to March 31, 2010, of which 92% of this amount was paid with 3,497,766 bonus shares at CA$0.03 per share, and approved by the board of directors on September 9, 2010. Professional fees increased by $276,058 of which $246,702 related to legal fees; $62,768 related to geological services and other services amounted to $1,319. This was offset by a reduction in (i) $10,000 for metallurgical service, and ii) $24,731 for accounting; miscellaneous and other expenses increased by $14,227. In addition for the twelve months ended September 30, 2010 utilities decreased by $7,197; shareholders expenses decreased by $7,793; travel decreased by $37,291; overhead decreased by $21,497 and transport expenses decreased by $75,783.

Stock based compensation was $1,072,559 during the twelve month period ended September 30, 2010 compared to $253,779 for the same period in 2009. The Company has expensed $201,631 (2009 - $253,779) for the vesting period of the common stock options (as defined below) issued during the twelve months ended September 30, 2010 for options granted whose vesting period is between the date of grant and three, four and five years. The Company renewed 12,555,714 common stock options that expired on April 5, 2010. These options were fair valued at $376,471. In addition, 16,000,000 of new options were issued on April 19, 2010 exercisable at CA$0.035 per share for a period of five years from the date of issuance, which were issued as follow: (i) 13,500,000 options to Directors of the Company; (ii) 1,000,000 options to the Chief Financial Officer; and (iii) 1,500,000 options to employees. These options were fair valued at $479,744. Also on April 19, 2010 the board of directors authorized the issuance of 500,000 bonus shares to an employee of the Company. These shares were fair valued at $14,713.

Warrant revaluation expenses were $206,208 in the twelve month period ended September 30, 2010 compared to $nil for the same period in 2009. On December 1, 2009 the TSX agreed to further extend the expiration date on the 46,187,485 outstanding common share purchase warrants (the "Warrants") and 5,616,936 outstanding common share purchase warrants (the "Broker Warrants") which were to expire on December 17, 2009, all of which were issued in connection with a private placement on December 17, 2007. The fair value of these modified warrants and broker warrants was $188,321, These warrants were further extended to December 17, 2010 and further extended from December 17, 2010 to June 17, 2011. In Addition, on September 9, 2010, the TSX agreed to further extend the expiration date on the 8,137,911 outstanding common share purchase warrants which were due to expire on September 9, 2010, all of which were issued in connection with a non brokered private placement on September 9, 2008. The fair value of these modified warrants and broker warrants of $17,887. These warrants were further extended to September 9, 2011, at which time they expire.

The foreign exchange gain was $324,351 for the twelve months ended September 30, 2010 compared to a gain of $138,629 in the same period of 2009. This increase of $185,722 was due to the decrease of the US dollar versus the Chilean peso.

Interest expense was $333,423 in the twelve months ended September 30, 2010 compared to $494,147 in the same period of 2009. The decrease of $160,724 was due to a reduction of $275,653 in interest payable, which resulted from the conversion of certain debentures and leases by Mr. David R.S. Thomson and Mr. Mario Hernández, both Executive Vice Presidents and directors of the Company as further described below. The OPIC default interest charge was reversed in the amount of $95,251 in 2009 and the amortization of OPIC expenses and interest of the principal were reduced by $73,396. This was offset by an increase in accretion and interest of the A, B, C and D Debentures and other interest cost of $93,074.

The Company has taken the decision to focus its efforts on developing the Pimenton gold mine. As a result management decided not to continue further exploration of its exploration properties and during the year wrote off the carrying value of its exploration properties of $1,508,820 ($181,000 – 2009), as follows: Catedral $207,756 ($43,208 - 2009); La Bella $1,015,417 ($79,216 – 2009); Cal Norte $4,012 ($7,239 – 2009); Tordillo $272,190 (2009 - $nil); and Bandurrias $21,904 ($52,000– 2009). In addition the Company wrote down recoverable taxes in the amount of $12,459 (2009 - $18,000). In 2010 the total amount of these write downs were $1,521,279 (2009 - $199,000). During 2010, the Company incurred exploration costs on projects where the resource potential has not yet been determined as defined by National Instrument 43 – 101 and accordingly these exploration costs amounting to $718,000 were expensed.

Other income was $657,211 in the year ended September 30, 2010 compared to $562,000 in the same period of 2009. The Company reached settlement with the Chilean IRS in March 2010 to pay $172,331 of taxes versus the original claim by the Chilean IRS of $554,182, the difference of $381,851 included interest and penalties, which was recorded as other income. Other income also included (i) $96,425 of tax refund, and (ii) $11,879 for scrap sale and other. 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 September 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 lease debentures 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 also included $46,802 for mining claims recovered in November 2008 and other income of $5,987.

Other expenses were $65,000 in the year ended September 30, 2010 compared to $61,000 in the same period of 2009. The increase of $4,000 was due to interest and readjustment of taxes payable (IVA).

Summary of Quarterly Results

	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
Sales	4,045	2,714	2,037	2,163
Net income (loss) before extraordinary items	(232)	(1,731)	(748)	(889)
Per share	(0.0003)	(0.0021)	(0.0009)	(0.0009)
Per share diluted	(0.0002)	(0.0017)	(0.0008)	(0.0008)
Net income (loss) after extraordinary items	(917)	(2,803)	(508)	(1,020)
Per share	(0.001)	(0.003)	(0.0006)	(0.0006)
Per share diluted	(0.001)	(0.003)	(0.001)	(0.001)

	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Sales	1,789	2,890	3,813	1,824
Net income (loss) before extraordinary items	(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) after extraordinary items	(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)

Non-GAAP Financial Measures

This MD&A refers to cash cost per ounce of gold 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. These 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 not 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,	**2010**	**2009**
Gold tons processed	31,075	26,861
Gold ounces sold	8,598	10,607
Cost of sales	11,078	8,491
Add (deduct):		
Amortization and depreciation	(1,488)	(1,460)
Remediation and reclamation	(150)	(139)
Total cash cost of production before by-product credits	9,440	6,892
Copper and Silver – by- product credits	(909)	(1,140)
Total cash cost of production after by-product credits	8,531	5,752
Cash cost per ounce	$992.19	$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 by mid 2011 and increase production to near 200 tons per day by year end 2011. The following is a sensitivity analysis:

PRODUCTION VARIABLES AND SENSITIVITIES FOR 300 TPD.

VARIABLES		
Head grade gold	13	g/t
Head grade copper	1	%
Starting tones per day year 1	100	Tpd
Tones per day year 2	150	Tpd
Tones per day year 3	200	Tpd
Tones per day year 4	300	Tpd
Plant combined recovery	92%	
Price per Ounce Gold	$1,300	
Price per pound Copper	$3.50	
Exchange rate US$	485	CH$
Loan Interest rate	8.50%	
Price per liter Diesel	500	CH$
Price per liter Gasoline	600	CH$

ALL IRR% ARE FOR ENTIRE INVESTMENT

Grade Sensitivity. Projects from a low of 10g/t to 16 g/t Au head grade through plant.

Au g/t	Cu%	Op.Cost/Oz	IRR%
10	0.8	$729	109%
12	1.0	$636	142%
14	1.2	$569	171%
16	1.4	$519	199%

Cost/Oz is cash cost per ounce at the mine

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

% diff. Recovery	Op.Cost/Oz	IRR%
-10%	$652	90%
-5%	$624	121%
2%	$591	138%

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

Tonnage Sensitivity from a low of at 100 to a high of 300 tpd.

Tons per day	Op.Cost/Oz	IRR%
100	$839	56%
125%	$777	82%
150%	$686	101%
175%	$689	109%
200%	$632	117%
250%	$552	122%
300%	$499	127%

300 TPD
Price of Gold Sensitivity

Price per Ounce	IRR%
$650	31%
$700	40%
$800	58%
$900	74%
$1,000	90%
$1,300	137%

Price of Copper Sensitivity with gold at US$1,000

Price per pound Cu	IRR%
$1,00	112%
$2,00	110%
$3,00	108%
$4,00	93%

Liquidity and capital resources

Contractual Obligations	Total	Less than 1 year	1-3 Years	4-5 years
	$	$	$	$
Purchase obligations	2,482,913	2,482,913	-	-
Long-term amount due to related parties	3,634,858	3,634,858	-	-
Long-term debt	127,947	-	-	127,947
Capital leases	531,674	295,435	236,239	-
Conditional loan agreement (1)	2,500,000	-	-	2,500,000
Tordillo prospect (2)	250,000	-	-	250,000
Total Contractual Obligations	**9,527,392**	**6,413,206**	**236,239**	**2,877,947**

Note (1). 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.

Note (2). As a compensation for services rendered in connection with Tordillo, the Company entered into an agreement to pay $250,000 within 50 days of first cash flow from the property.

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.

At September 30, 2010, cash was $1,470,000.

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 Company had a negative working capital of $1,093,000 at September 30, 2010. The working capital is expected to be improved by increases in operating profits from the Company's Pimenton gold mine. The Company plans to gradually increase production to 150 tons per day by mid 2011 and increase production to near 200 tons per day by year end 2011.

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

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 100 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 achieve profitability.

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 and gold furnace at a cost of approximately $160,000 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; the gold veins in the mine retaining their width, continuity and grade of ore; snow conditions in the Chilean winter which runs from May to August; the future price of diesel fuel; the price of the Chilean peso relative to the US Dollar and the ability of the Company to retain its current work force.

In May, 2010 the Company started to produce its own gold doré at the mine site. In the same month the Company started to ship the gold doré bars directly to a gold refinery in Europe. 90% of the value of gold shipment is paid during the week following delivery and the balance of the payment is received a month from the day of receipt of the initial payment. For the year ended at September 30, 2010 35% of the Company's sales have been to a gold refinery in Europe and 65% to the Enami smelter in Ventana, Chile. Enami 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.

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

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 (inner circle) modified on May 31, 2010, the Company has paid $351,538, $536,876 is due in December 2010, $603,985 in December 2011, $671,095 in December 2012 and $1,811,957 in December 2013. The Company will pay a 2 ½% net smelter royalty to the optionee from production thereafter.

On the El Chilque prospect area (formerly “the outer circle”), the Company paid $228,198, deferred to January 26, 2010 due to access problems to the prospect and future payments have been deferred by one month to $671,095 in January 2011, $939,533 in January 2012, $1,342,190 in January 2013 and $3,489,694 in January 2014. The Corporation has an obligation to pay a 2½% net smelter royalty to the optionee of the outer circle from production thereafter.

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 circles.

The Corporation has made the decision that the exploration results to date do not justify paying the option payments which are due to be paid in December 2010 and January 2011 and is currently attempting to reach a revised agreement with the claims owner.

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 CEO (who is also a director) billed the Company $26,041 in 2010 (2009 - $64,220) for the provision of office space and services used by the Company. Receivable from such officer and director of the Company of $236,577 in 2010 (2009 - $240,574) of which $190,289 is the net amount of non-interest-bearing note receivable compensation and $46,117 are cash advances. The note has been extended to September 30, 2011 and is collateralized by 6,532,000 common shares owned by this officer and director.

A company controlled by the Chief Financial Officer of the Company (the “CFO”) billed the Company $40,712 for accounting and administration services rendered in the period ended September 30, 2010 (2009 - $32,845). Accounts payable and accrued liabilities include payables to this officer of $5,195 for such services at September 30, 2010 (2009 - $7,057).

During 2007, the Executive Vice President and Director of Land and Administration 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 $974,918 at September 30, 2010 (2009 - $957,793) and interest expense was $48,746 in 2010 (2009 - $48,432). Accounts payable and accrued liabilities include $36,459 (2009- $242,358) for interest and $254,979 for royalties as at September 30, 2010 (2009 - $398,136).

Accounts payable and accrued liabilities include $36,224 and $243,984 as at September 30, 2010 and 2009, 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. Such Pimenton note has the present value amounts of $968,645 and $951,683 as at September 30, 2010 and 2009, respectively, and interest expense was $48,432 in 2010 (2009 – $48,432). In addition accounts payable and accrued liabilities include $254,979 and $398,136 as at September 30, 2010 and 2009, respectively, for royalties due to this officer and director who is the owner of a net smelter royalty on the Pimenton gold mine.

In September 2010, additional working capital of $831,664, in the form of an advance was provided by the Executive Vice-President of Claims and Land Management and the Executive-Vice-President of Exploration, both directors of the Company.

On September 9, 2010, the board of directors approved to pay $375,000 to Companía Minera Auromín Ltda. a company controlled by Mr. David Thomson, Executive Vice President of Exploration, and a director of the Company as compensation for services from January 1, 2009 to March 31, 2010. The board of directors approved to pay 92% of this compensation with the issuance of 12,199,200, bonus shares valued at $345,000 using the TSX closing price of CA $0.03 per share, leaving a balance of $30,000 due as of September 30, 2010.

On April 1, 2010, a Company owned by David R.S. Thomson, Executive-Vice President-Director of Exploration and a director of the Company, Minera Auromin Ltda, entered into a services contract with the Company for a period of two years, which will be renewed for an additional two year period at the end of each year. Under the term of the contract, Minera Auromin Ltda. is to be paid, $300,000 per year. The services to be provided by Compañía Minera Auromin Ltda. Include; seeking new mining projects; performing geological studies and design drill programs for the Company on exploration projects; conducting preliminary design of the mining plan for designated project and providing other services related to the explorations and development of mining projects. As of September 30, 2010 accounts payable and accrued liabilities included $150,000.

On September 9, 2010, the board of directors approved to pay $137,500 to Minera Chañar Blanco S.A., a company controlled by Mr. Mario Hernández, Executive Vice President of Claims and Land Administration, and a director of the Company as a compensation for services from January 1, 2009 to March 31, 2010. The board of Directors approved to pay 92% of this compensation with the issuance of 4,473,040, bonus shares valued at $126,500 using the TSX closing price of CA $0.03 per share, leaving a balance of $11,000 due as of September 30, 2010.

On April 1, 2010 a Company owned by Mario Hernández, Executive-Vice President-Director of Claims and Administration and a director of the Company, Compañía Minera Chañar Blanco S.A., entered into a services contract with the Company for a period of two years, which will be renewed for an additional two year period at the end of each year. The services to be provided by Minera Chañar Blanco S.A. include: Maintaining title and ownership of mining properties acquired by the Company; acquiring water rights or request concessions of water rights on the properties acquired by the Company; and negotiations the acquisition of new mining properties for the company. As of September 30, 2010 accounts payable and accrued liabilities included $55,000.

Company made payments and issuances of securities to certain directors and officer. During the year ended September 30, 2010, the expense were $24,706 ($39,223 – 2009).

On September 9, 2010, the board of directors approved to pay $98,918 to the CEO, who is also director of the Company as compensation for services from January 1, 2009 to March 31, 2010. The board directors approved to pay 92% of this compensation with the issuance of 3,497,766, bonus shares valued at $91,005 using the TSX closing price of CA $0.03 per share.

On April 1, 2010, CEO, who is also a director of the Company entered into a salary contract for a period of two years, which will be renewed for an additional two year period at the end of each year. Under the terms of the contract, the “CEO” is to be paid $110,000 per year.

On April 21, 2010, Mr. David R.S. Thomson and Mr. Mario Hernandez both Executive Vice Presidents and directors of the Company through their companies Compania Minera Auromin Ltda, and Compania Minera Chanar Blanco S.A., respectively, each acquired one debenture convertible into common shares of the Company (each, an “A Debenture”). Mr.Hernandez acquired an A Debenture in the aggregate principal amount of $716,105 which is convertible into up to 16,312,866 common shares of the Company. Mr.Thomson acquired an A Debenture in the aggregate principal amount of $714,400 which is convertible into up to 16,274,022 common shares. The A Debentures were issued in payment of past due interest and royalties payable toMessrs. Hernandez and Thomson through to December 31, 2009 by CMP. The conversion price of the 5 year A Debentures is CA$ $0.045 per share convertible into an aggregate of up to 32,586,888 common shares of the Company. The interest rate on the A Debentures is 6% payable annually. No warrants are attached to the A Debentures. The Company has the right to call the A Debentures at any time one year after the date of issue on 30 days notice to the

holders. On June 29, 2010. Mr. David R.S. Thomson and Mr. Mario Hernandez both Executive Vice Presidents and a directors of the Company elected to convert the $1,430,505 A Debentures, which were due to mature on April 21, 2015, into 32,586,888. These shares were value at $928,489 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a gain of $523,544 of which $222,539 was recorded as other income for the three months ended June 30, 2010 and $301,005 was recorded as contributed surplus. Accounts payable and accrued liabilities include payables to these officers of $6,202 as at September 30, 2010 for interest on such debentures.

On April 21, 2010, Mr. David R.S. Thomson and Mr. Mario Hernandez both Executive Vice Presidents and directors of the Company through their companies Compania Minera Auromin Ltda, and Compania Minera Chanar Blanco S.A., respectively, each acquired one debenture convertible into common shares of the Company (each, an "B Debenture"). Mr.Thomson acquired a B Debenture in the aggregate principal amount of $250,000 which is convertible into up to 6,406,970 common shares together with up to 6,406,970 common share purchase warrants. Mr.Hernández also acquired a B Debenture in the aggregate principal amount of $321,667 which is convertible into up to 8,243,644 common shares together with up to 8,243,644 common share purchase warrants. The B Debentures were issued in payment of cash advances by Messrs.Hernandez and Thomson to the Company totalling $571,667 which cash advances were used for working capital and to fund capital expenditures on Pimenton. The conversion price on the five year B Debentures is CA$ $0.04 per share convertible into an aggregate of up to 14,650,575 common shares of the Company. Interest rate on the Debenture is 6% payable annually. In addition the B Debenture holders were issued 14,650,575 warrants exercisable at CA$ $0.05 per common share of the Company. Net proceeds of the placement were $356,132, of which $215,535 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 3.2%, no dividend and a volatility factor of 132%. On June 29, 2010, Mr. David R.S. Thomson and Mr. Mario Hernández converted the B Debenture which were due to mature on April 21, 2015 into 14,650,575 common shares. The exercised shares were valued at $417,435 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a loss of $55,893 of which $53,320 was recorded as a reduction in other income and $2,573 was recorded as contributed surplus. Accounts payable and accrued liabilities include payables to these officers of $15,519 as at September 30, 2010 for interest on such debentures.

On June 9, 2009, 2,469,571 common shares valued at CA$0.035 were issued to two officers (Executive-Vice President, Claims and Land Management and Executive-Vice-President and Director of the Company Exploration) who are also Directors and were issued in lieu of interest payments, due for the period of March 31, 2008 to March 31, 2009 on the US$1,600,000 Convertible Secured Debenture issued to it in 2006. Interest expense was $47,055 for the periods ended June 30, 2009 Accounts payable and accrued liabilities include payables to these officers of $9,095 as at September 30, 2010 for interest on such debentures.

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 February 9, 1999, the board of directors agreed to amend its November 27, 1996, agreement with Messrs. Hernandez and Thomson regarding the recovery of advances made to explore and develop the Catedral prospect. The board of directors agreed that all funds advanced will be recovered from 80% of the cash flow of the properties or from the sale thereof until the Company has recovered 125% of such advances. On September 11, 2000, the board of directors agreed to an additional amendment to this agreement limiting recovery of advances made through September 30, 2000, to $3,125,000 (and not the 125% of such advances). Such recovery will be from 60% (reduced from 80% previously agreed upon) of the cash flow from the property or the sale of the property. Future advances will also be recovered from 60% of the cash flow. Accordingly, such advances have been reflected in "Exploration and development costs."

In 2001, the board of directors and compensation committee of the board 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.

Outstanding Share Information

As of December 10, 2010, the Company has issued one class of common shares of which a total of 868,035,756 common shares are outstanding. As of December 10, 2010, the Company had 115,142,118 common share purchase warrants outstanding, each of which is exercisable into one common share at exercise prices of CA$0.025 to CA$0.070 through May, 2015. Options granted under the stock option plan of the Company (each, an "Option") outstanding as of December 10, 2010, totaled 86,470,000 of which 76,670,000, are currently exercisable into one common share at prices of CA$0.035 to CA$0.09 per common share expiring at various dates through April 19, 2015.

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 on or prior to December 29, 2010. 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.

Critical Accounting Estimates

A summary of the critical accounting estimates are set out below:

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."

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, 2010.

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.

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 and exploration costs of exploration properties are expensed as incurred. Once resource potential has been established as defined by a National Instrument (NI) 43-101 report future costs are then capitalized. 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.

The Company regularly assesses exploration and development costs for any factors or circumstances that may indicate impairment.

Revenue recognition

Revenue from the sale of concentrates and gold doré are 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 customers. Generally, the final settlement price is computed with reference quoted metal prices for a specified period of time. Revenues are recognized when the concentrate material is delivered to customers based on the currently prevailing metals prices, quantities of concentrate delivered and provisional assays as agreed between the company and customers 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 customers 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.

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.

Future changes in accounting policies

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.

The Potentially High Impact Areas are:

1.1. First Time Adoption of IFRS (IFRS 1)

- IFRS 1 provides detailed guidance on the specific disclosures required in the first set of IFRS financial statements. It also provides exemptions, in a number of areas, from the retrospective application of some standards.
- SAGC has to carefully assess the exemptions provided by IFRS 1 to ensure that the right decisions are made on transition.
- Additionally, SAGC has to ensure that it has the right systems in place to be able to collect all the data and information required for disclosure in the first IFRS financial statements.

1.2. Asset Retirement Obligations

- SAGC needs to consider whether any constructive obligations exist, which could give rise to additional Asset Retirement Obligations liabilities under IFRS.
- Provisions will need to be reviewed at each reporting date, using the pre-tax discount rate prevailing on the balance sheet date.
- IFRS requires more disclosure than existing Canadian GAAP.

1.3. Presentation of Financial Statements

- SAGC will need to ensure that the presentation of their IFRS financial statements is consistent with the requirements of IAS 1.
- As part of the conversion to IFRS, the Company will need to consider whether they have the right systems in place to capture the information required for these additional disclosures
- Management will need to familiarize themselves with the layout and disclosure requirements of IFRS statements. There are several disclosure checklists and examples in the public domain of IFRS financial statements for mining companies which could provide SAGC with examples of the required disclosures.

1.4. Functional Currency Determination (Foreign Exchange

- IAS 21 provides specific indicators in determining an entity's functional currency.
- SAGC has to assess the functional currency of its operating entities based on these indicators.
- IFRS requires more disclosure than the existing Canadian GAAP regarding functional currency determinations.

1.5. Stock-based Compensation

- On transition to IFRS, SAGC will need to review the terms, of its stock-based compensation, in order to ensure that the awards are correctly accounted for under IFRS.
- SAGC currently issues equity instruments to directors, officers, employees, and certain consultants. It will therefore have to consider whether the consultants meet the definition of employees, under IFRS and apply the appropriate treatment to these awards.

- The requirement to re-measure the fair value of settled awards and estimate forfeitures may increase the implementation effort.
- SAGC will have to estimate a forfeiture rate under IFRS

1.6. Property, Plant & Equipment (PP&E)

- The components of the capitalized PP&E costs may need to be examined to determine whether or not they are capitalizable under IFRS. SAGC needs information in sufficient detail for this assessment.
- The separate measurement of the significant individual components of PP&E along with their differing useful lives may be a complex task, which will require modification of existing fixed asset systems to track additional asset details.
- Overhaul and maintenance schedules can be used to help determine the specific useful lives of significant components within large items of PP&E.
- Defining reserves and resources and deciding which one is used for calculating depreciation cost will require significant technical expertise and judgment.
- IFRS has greater disclosure requirements than Canadian GAAP.

IFRS 1 Consideration:

- Electing to measure an item of PP&E at the date of transition at its fair value and use that fair value as its deemed cost, will require significant technical expertise, judgment, and resources to determine fair value.

1.7. Mineral Property and Exploration Costs

- SAGC will need to monitor the progress of developments in IFRS 6, regarding the capitalization of exploration and evaluation costs and the treatment of reserves and resources.

1.8. Impairments

- Develop an accounting policy for impairment testing, guidelines for determination of fair value less cost to sell and value in use measures.
- Impairment testing is a one-step test under IAS 36 rather than a two-step test under Canadian GAAP, which may increase the frequency of the recognition of impairment charges.

- Under IAS 36, impairment losses are measured differently, i.e. as the excess of carrying value and the recoverable amount, which is the higher of fair value less cost to sell and value in use.

- SAGC will need to review its asset groupings under the definition of cash-generating unit to ensure that the level of review for impairment testing purposes is still appropriate.

- The criteria for recognizing impairments are similar to Canadian GAAP; however, the reversal of impairments (other than goodwill) is not permitted under Canadian GAAP, but is required under IFRS, should events and circumstances exist that may indicate reversal of impairment tests.

- In order to be able to reverse impairments, when conditions reverse, SAGC will need to keep detailed accounting records of the depreciated historic cost for impaired assets as the reversal of impairment is limited to this amount.

IFRS changeover plan

The changeover to IFRS from Canadian GAAP is a significant undertaking, and as a result, the Company has dedicated resources to this process. The changeover plan consists of three primary phases:

- Initial diagnostic phase

- Impact analysis, evaluation and solution development phase

- Implementation and review phase

Phase 1: Initial diagnostic

The objective of this phase is to identify the required changes to the Company's accounting policies and practices resulting from the changeover to IFRS to determine the scope of the work effort required for the next two phases.

Phase 1 involves:

- A detailed review of all relevant IFRS standards to identify differences with the Company's current accounting policies and practices

- The separate consideration of one-time accounting policy alternatives that must be addressed at the changeover date and those accounting policy choices that will be applied on an ongoing basis in periods subsequent to the changeover to IFRS

- The prioritization of those differences that could have a more than inconsequential impact on the Company's consolidated financial statements, business processes or IT systems
- The identification of internal stakeholders and business areas that may be affected by the changeover.

Phase 2: Impact analysis, evaluation and solution development

Phase 2 will result in the design and development of detailed solutions to address the differences identified in the first phase of the changeover plan. These solutions will result in certain necessary changes to the Company's internal business processes and financial systems to comply with IFRS accounting and disclosure requirements. Phase 2 activities include:

- The evaluation of accounting policy alternatives
- The investigation, development and documentation of solutions to resolve differences identified in Phase 1, reflecting changes to existing accounting policies and practices, business processes, IT systems and internal controls
- The implementation of a change management strategy to address the information and training needs of internal and external stakeholders.

Phase 3: Implementation and review phase

This phase involves the implementation of the required changes to the Company's information systems and business policies and procedures identified in the previous phase of the plan. It will culminate in the collection of financial information necessary to prepare consolidated IFRS financial statements and audit committee approval of IFRS consolidated financial statements.

Progress towards completion of the IFRS changeover plan

The Company has completed Phase 1 of its changeover plan and has identified the differences between Canadian GAAP and IFRS that impact its consolidated financial statements. The Company's detailed analysis has identified a number of accounting differences and policy alternatives under IFRS as compared to Canadian GAAP. The Company has also determined that its accounting policies are largely aligned with IFRS requirements in many key areas other than those set out above.

Work on phase 2 has commenced and the Company has begun assessing the impact and designing solutions to address the differences, focusing initially on those differences that

may require changes to its financial systems or that are more complex or time-consuming to resolve.

Appropriate resources have been secured to complete the changeover on a timely basis according to the Company's plan. The Company is also ensuring that training needs are met and will continue to be addressed throughout the changeover period.

The Company has detailed project plans and progress reporting in place to support and communicate the changeover. At this time, the Company cannot quantify the impact that the future adoption of IFRS will have on its consolidated financial statements and operating performance measures; however, such impact may be material. Additional information will be provided as the Company moves towards the changeover date.

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.

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 is filed on SEDAR at www.sedar.com.

South American Gold and Copper Company Limited

Consolidated Financial Statements
September 30, 2010 and 2009
(expressed in thousands of U.S. dollars)

December 10, 2010

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.

"Stephen W. Houghton"
Chief Executive Officer

"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, 2010 and 2009 and the consolidated statements of operations, comprehensive loss and deficit and consolidated statements of 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, 2010 and 2009 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 10, 2010

South American Gold and Copper Company Limited

Consolidated Balance Sheets

As at September 30, 2010 and 2009

(expressed in thousands of U.S. dollars)

	2010 $	2009 $
Assets		
Current assets		
Cash	1,470	855
Restricted cash	-	22
Receivable from an officer and director (note 16)	-	14
Receivables (notes 8)	757	433
Recoverable taxes (note 6)	1,406	2,125
Inventories (note 4)	855	476
	4,488	3,925
Receivable from an officer and director (note 16)	237	241
Mining properties, plant and equipment (note 5)	17,125	17,242
Exploration properties (note 7)	-	627
Total assets	21,850	22,035

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, 2010 and 2009

(expressed in thousands of U.S. dollars)

	2010 $	2009 $
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 16)	3,342	1,950
Taxes payable (VAT)	-	523
Current portion of long-term lease (note 15(b))	295	29
Current portion of long-term debt (note 10)	1,944	933
	5,581	3,435
Long-term debt (note 10)	128	1,895
Long-term lease (note 15(b))	236	22
Long-term amounts due to related parties (notes 15 and 16)	832	780
Reclamation and remediation (note 13)	2,145	1,995
Total liabilities	8,922	8,127
Shareholders' Equity		
Share capital (note 9(b))	73,060	70,919
Contributed surplus (note 12)	4,494	3,145
Convertible subordinated debentures (note 10(b))	154	-
Options (note 9(c))	1,805	1,479
Warrants (note 11)	1,752	1,454
Accumulated deficit and comprehensive loss	(68,337)	(63,089)
Total shareholders' equity	12,928	13,908
Total liabilities and shareholders' equity	21,850	22,035

Commitments (note 15)

Approved by the Board of Directors

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

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, 2010 and 2009

(expressed in thousands of U.S. dollars)

	2010 $	2009 $
Revenues		
Gold	9,998	9,176
Copper and silver	951	1,140
Other revenues	10	-
	10,959	10,316
Expenses		
Operating cost	9,828	6,892
Amortization and depreciation	1,512	1,464
Reclamation and remediation	150	139
General and administrative	1,782	1,409
Stock-based compensation (notes 9(c))	1,072	254
Warrants revaluation	206	-
Foreign exchange gain	(324)	(138)
Interest on long-term debt	333	494
	14,559	10,514
Loss before undernoted	(3,600)	(198)
Other income	657	562
Other expenses	(65)	(61)
Write off of exploration costs (note 7)	(2,240)	(199)
Income (loss) and comprehensive income (loss) for the year	(5,248)	104
Accumulated Deficit - Beginning of year	(63,089)	(63,825)
Gain on conversion of convertible secured debentures	-	632
Accumulated Deficit - End of year	(68,337)	(63,089)
Basic and diluted income (loss) per share (note 2)	(0.01)	-

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, 2010 and 2009

(expressed in thousands of U.S. dollars)

	2010 $	2009 $
Cash provided by (used in)		
Operating activities		
Income (loss) for the year	(5,248)	104
Non-cash items		
Amortization an depreciation	1,512	1,464
Accretion of interest on long-term debt	119	367
Foreign exchange gain	(324)	(138)
Taxes and penalty	15	24
Write-off of exploration costs	2,240	205
Provision	574	504
Reclamation and remediation	150	139
Royalties	633	593
Gain (loss) on conversion of convertible unsecured debentures	(167)	590
Other income	(382)	-
Non-cash employee options (note 9 (c))	1,072	254
Non-cash warrant revaluation	206	-
	400	4,106
Changes in non-cash working capital relating to operations (note 17)	379	(797)
	779	3,309
Investing activities		
Additions to mining equipment and exploration properties	(2,290)	(2,217)
Receivable from an officer and director	(23)	(119)
	(2,313)	(2,336)
Financing activities		
Shares issued (note 9(b))	1,536	361
Long term debt	423	-
Amount due to related parties	830	-
Capital lease	725	-
Repayment of capital leases	(428)	(25)
Repayment of debt (note 10(a))	(933)	(623)
	2,153	(287)
Effect of foreign exchange on cash and cash equivalents held in foreign currency	(4)	16
Increase in cash during the year	615	702
Cash - Beginning of year	855	153
Cash - End of year	1,470	855

Supplemental cash flow information (note 17)

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.

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) Inventories

Ore stockpile and concentrate stockpile inventories are valued at the lower of production cost and net realizable value. Production costs include direct costs of materials and labour related directly to mining and processing activities, including depreciation and amortization of property, plant and equipment directly involved in the related mining and production process and directly attributable overhead costs. Materials and supplies inventories are valued at the lower of cost and net realizable value.

f) 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.

g) 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."

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, 2010.

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.

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.

h) Exploration and development costs

Acquisition and exploration costs of resource properties are are expensed as incurred until resources have been determined and then these expenses are capitalized. 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.

The Company regularly assesses exploration and development costs for any factors or circumstances that may indicate impairment.

i) Goodwill and intangible assets

Effective October 1, 2009 the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes 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 adoption of this standard did not have a material impact on the Company's Consolidated Financial Statement.

j) Revenue recognition

Revenue from the sale of concentrates and gold doré are 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 customers. Generally, the final settlement price is computed with reference quoted metal prices for a specified period of time. Revenues are recognized when the concentrate material is delivered to customers based on the currently prevailing metals prices, quantities of concentrate delivered and provisional assays as agreed between the company and customers 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 customers and revenue from these by-products are recognized on the same criterion as those used for gold revenues.

(expressed in thousands of U.S. dollars)

k) 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.

l) 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.

m) 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.

n) 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.

(expressed in thousands of U.S. dollars)

o) 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.

p) 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 derivatives for the period ended September 30, 2010. The Company has performed an assessment as of September 30, 2010 and believes there to be no impact on its financial statements.

q) 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.

(expressed in thousands of U.S. dollars)

2 Basic and diluted loss per share

	2010 $	2009 $
Income (loss) for the year	(5, 2	104
Weighted average number of shares outstanding - basic	806,700,055	758,266,083
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:

	2010 $	2009 $
Income (loss) before income taxes and non-controlling interest in consolidated subsidiary's loss	(5,248)	104
Income tax recovery provision at Canadian federal and provincial statutory rates (2010 – 32.00%; 2009 - 33.13%)	1,680	(34)
Effect of expenses incurred in non-taxing jurisdictions	(9)	(94)
Effect of difference in regional income taxes compared with Canadian rates	(396)	112
Expenses not deductible for income tax purposes	(454)	(52)
Effect of losses incurred for book purposes, the income tax benefits of which have not been recognized in these consolidated financial statements	(821)	68
(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:

	2010 $	2009 $
Mining properties, plant and equipment and exploration properties	536	4,629
Non-capital losses carried forward and other future assets	2,257	2,635
	2,793	7,264
Valuation allowance	(2,793)	(7,264)
Net future income tax liability	-	-

As at September 30, 2010, the Company and its subsidiaries had available Canadian income tax loss carry-forwards of approximately $4.1 million that expire between 2010 and 2030, Chilean tax loss carry-forwards of approximately $2.0 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 $2,793,000 as at September 30, 2010 (2009 - $7,264,000) 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 Inventories

	2010	2009
Ore and concentrate stockpiles	548	251
Materials and supplies	307	225
	855	476

(expressed in thousands of U.S. dollars)

5 Mining properties, plant and equipment

				2010
	Estimated useful life	**Cost $**	**Accumulated amortization $**	**Net $**
Mining properties	UOP	3,999	1,073	2,926
Buildings and equipment	1-10 yea	11,029	6,663	4,366
Mine development	UOP	12,956	3,123	9,833
		27,984	10,859	17,125

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

The cost of assets under capital leases and the related accumulated amortization amounted to $836,557 in 2010 (2009 - $111,655) and $90,036 in 2010 (2009 - $22,421), respectively.

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 were $587,805 for the year ended September 30, 2010 (2009-$654,700). Prior to October, 2008 gold sales and operating costs have been capitalized for financial accounting purposes. For the year ended September 30, 2009 the Company capitalized $2,039,000.

6 Recoverable taxes

Recoverable taxes in the amount of $1,405,635 at September 30, 2010 (2009- $2,125,483) have been classified as a short-term asset, which include VAT taxes paid on the fixed assets in the amount of $358,235 as at September 30, 2010 (2009- $349,000). The Chilean tax authorities agreed to the recovery of $358,235 against tax due upon sales of the Company. 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.

(expressed in thousands of U.S. dollars)

7 Exploration properties

The following table summarizes exploration expenses by property.

	Catedral (a) $	Cal Norte (b) $	Tordillo (c) $	Bandurrias (d) $	La Bella (e) $	Other $	Total $
Acquisition costs							
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
Additional costs capitalized	208	4	45	22	541	-	820
Writedowns	(208)	(4)	(273)	(22)	(940)	-	(1,447)
Balance as at September 30, 2010	-	-	-	-	-	-	-
Exploration costs							
Balance as at September 30, 2008	-	-	-	-	-	-	-
Additional costs capitalized	-	-	-	-	56	-	56
Reclasification	-	-	-	-	-	-	-
Writedowns	-	-	-	-	(56)	-	(56)
Balance as at September 30, 2009	-	-	-	-	-	-	-
Additional costs capitalized	-	-	-	-	75	-	75
Reclasification	-	-	-	-	-	-	-
Writedowns	-	-	-	-	(75)	-	(75)
Balance as at September 30, 2010	-	-	-	-	-	-	-

During the year end September 30, 2010 the Company wrote off acquisition and exploration costs totalling \$1,508,820 (2009 - \$181,000), on properties the Company has no intent on developing further. In addition the Company wrote down recoverable taxes in the amount of \$12,459 (2009 - \$18,000). In 2010 the total amount of these write downs were \$1,521,279 (2009 - \$199,000). During 2010, the Company incurred exploration costs on projects where the resource potential has not yet been determined and these exploration costs of \$718,000 were written off.

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 15).

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

(expressed in thousands of U.S. dollars)

reviews alternative strategies for the sale, joint venture or spin-off of the Catedral/Rino and Cal Norte limestone properties.

The Company wrote off the balance of $207,756 for the year ended September 30, 2010 (2009 - $43,208) of 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, 2010, the Company had contributed $1,545,000 (2009 - $1,541,000) 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 at September 30, 2010, management decided not to continue further exploration of this property and wrote off the carrying value of $4,012 (2009- $7,000) during the year ended September 30, 2010.

c. 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. The Company is deferring exploration activities while it is bringing Pimenton on line. Management decided not to continue further exploration of this property and wrote off the carrying value of $272,190 during the year ended September 30, 2010 (2009 - $nil).

d. Bandurrias

The Company has made the decision not to renew its claims on the Bandurrias prospect. This prospect has been abandoned and the associated acquisition costs of $22,000 were written off during the year ended September 30, 2010.

(expressed in thousands of U.S. dollars)

e. 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) modified on May 31, 2010, the Company has paid $351,538, $536,876 is due in December 2010, $603,985 in December 2011, $671,095 in December 2012 and $1,811,957 in December 2013. The Company will pay a 2 ½% Net Smelter Royalty to the optionee from production thereafter.

Regarding the outer circle, the Company paid $228,198, deferred to January 26, 2010 due to access problems to the prospect and future payments have been deferred by one month to $671,095 in January 2011, $939,533 in January 2012, $1,342,190 in January 2013 and $3,489,694 in January 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 made the decision that the exploration results to date do not justify paying the option payments which are due to be paid in December 2010 and January 2011 and is currently attempting to reach a revised agreement with the claims owner.

Management decided not to continue further exploration of this property and wrote off a total of $1,015,417 during the year ended September 30, 2010 (2009 - $79,000) relating to property acquisition and exploration costs on La Bella

8 Receivables

Receivables consist of:

	2010 $	2009 $
Accounts receivable for customers	454	335
Other sundry receivables	303	98
	757	433

(expressed in thousands of U.S. dollars)

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, 2008	728,528,714	69,255
Private placement (i)	19,408,620	274
Private placement (ii)	1,663,182	23
Private placement (iii)	42,839,654	1,367
Balance – September 30, 2009	792,440,170	70,919
Bonus share (iv)	500,000	14
Private placement (v)	32,586,888	928
Private placement (vi)	14,650,575	417
Bonus share (vii)	1,000,000	28
Private placement (viii)	5,758,050	192
Private placement (ix)	19,890,185	562
Balance – September 30, 2010	866,825,868	73,060

i) 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%. On December 10, 2010 the TSX agreed to extend the expiration date on 7,561,800 outstanding common share purchase warrants to June 18, 2011 on December 10, 2010 and the exercise price was increased from CA$0.045 to CA$0.06 per common share.

ii) On March 6, 2009, 1,663,182 common shares valued at CA$0.035 were issued for services rendered to the Company 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-

(expressed in thousands of U.S. dollars)

Scholes valuation model assuming a risk-free interest rate of 1.4%, no dividend and a volatility factor of 120%.

iii) On June 9, 2009 the holders, Mr. David R.S. Thomson, Executive Vice President of Exploration (Thomson) and Mr. Mario Hernández Executive Vice President of Claims and Land Administration (Hernandez) both are directors of the Company elected to convert the $1,600,000 convertible unsecured 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 shares. These common 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 in deficit. Also, on June 9, 2009, 2,469,571 common shares valued at CA$0.035 were issued to Thomson and 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, Thomson and Hernández converted $507,022 of leases secured by certain mining equipment into 12,261,795 common shares of the Company. The common shares were valued at $0.035 using the TSX closing price per share on March 9, 2009 and resulted in a gain of $116,935.

iv) On April 19, 2010, the board of directors approved the issuance of 500,000 bonus shares to an employee. The shares were valued at $14,713, using the TSX closing price.

v) On April 21, 2010 the holders, Thomson and Hernandez through their respective companies Compania Minera Auromin Ltda (Auromin), and Compania Minera Chanar Blanco S.A. (Blanco), each acquired one debenture convertible into common shares of the Company (each, an “A Debenture”). Hernandez acquired an A Debenture in the aggregate principal amount of $716,105 which is convertible into up to 16,312,866 common shares of the Company. Thomson acquired an A Debenture in the aggregate principal amount of $714,400 which is convertible into up to 16,274,022 common shares. The A Debentures were issued in payment of past due interest and royalties payable to Hernandez and Thomson through to December 31, 2009 by Compania Minera Pimenton (Pimenton). The conversion price of the five year A Debentures is CA$ $0.045 per share convertible into an aggregate of up to 32,586,888 common shares of the Company. The interest rate on the A Debentures is 6% payable annually. The Company has the right to call the A Debentures at any time one year after the date of issue on 30 days notice to the holders. On June 29, 2010 the holders, Thomson and Hernandez elected to convert the $1,430,505 convertible unsecured Debenture A, into 32,586,888 common shares at a conversion price $0.045 per share. These common shares were valued at $928,489 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a gain of $523,544 of which $222,539 was recorded as other income and $301,005 was recorded as contributed surplus.

vi) On April 21, 2010 the holders, Thomson and Hernandez through their respective companies Auromin and Blanco. Thomson acquired a B Debenture in the aggregate principal amount of $250,000 which is convertible into up to 6,406,970 common shares together with up to 6,406,970 common share purchase warrants exercisable at CA$ $0.05 per common share. Hernandez also acquired a B Debenture in the aggregate principal amount of $321,667 which is convertible into up to 8,243,644 common shares together with up to 8,243,644 common share purchase warrants

exercisable at CA$ $0.05 per common share. The B Debentures were issued in payment of cash advances by Hernandez and Thomson to the Company totalling $571,667 which cash advances were used for working capital and to fund capital expenditures on Pimenton. The conversion price on the five year B Debentures is CA$ $0.04 per share convertible into an aggregate of up to 14,650,575 common shares of the Company. Interest rate on the debentures is 6% payable annually. Net proceeds of the placement were $356,132, of which $215,535 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 3.2%, no dividend and a volatility factor of 132%. On June 29, 2010, Thomson and Hernández converted $571,667 convertible unsecured debenture B into 14,650,575 common shares. The exercised shares issued on the conversion of the debenture were valued at $417,435 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a loss of $55,893 of which $53,320 was recorded as a reduction in other income and $2,573 was recorded as contributed surplus.

vii) On July 5, 2010 1,000,000 bonus shares were issued for corporate financial services rendered to the Company and were valued at $28,143 using the TSX closing price of CA $0.03 per share.

viii) On May 11, 2010 $330,000 of convertible unsecured debentures (the "D Debentures") were issued. The conversion price of the D Debentures is CA$0.04 per share convertible into up to 8,261,550 shares of common shares of the Company. Interest rate on the D Debentures is 6% payable annually. In addition 8,261,550 common share purchase warrants per common share of the Company exercisable for 60 months from the date of issuance at CA$0.05 per share were issued. Net proceeds of the placement were $233,279, of which $96,721 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 2,93%, no dividend and a volatility factor of 132%. On August 20, 2010, $230,000 of the D Debentures was converted into 5,758,050 common shares. The exercised shares were valued at $191,935 using the TSX closing price of CA$0.035. On August 20, 2010 resulting in a loss of $18,076 of which $2,163 was recorded as a reduction in other income and $15,913 was recorded as contributed surplus.

ix) On September 9, 2010, the board of directors approved the issuance of 12,199,200, bonus shares to Auromín. The bonus shares issued were in lieu of 92% of the services for the period of January 1, 2009 to March 31, 2010 value at $345,000 using the TSX closing price of CA $0.03 per share using the TSX closing price of CA$ 0.03 per share. The board of directors also approved the issuance of 4,473,040, bonus shares to Blanco. The bonus shares issued were in lieu of 92% of the services for the period of January 1, 2009 to March 31, 2010 value at $126,500 using the TSX closing price of CA $0.03 per share using the TSX closing price of CA$ 0.03 per share. The board of directors also approved the issuance of 3,217,945, bonus shares to the Chief Executive Officer (the "CEO") of the Company, who is also director of the Company. The bonus shares issued were in lieu of 92% of the salary from the period of January 1, 2009 to March 31, 2010 value at $91,005 using the TSX closing price of CA$ 0.03 per share.

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 117,278,824 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, 2008	1,418	89,949,538	0.065
Changes during the year			
Granted (i)	-	3,660,462	0.040
Vested	253	-	
Expired	(192)	(8,000,000)	0.090
Balance – September 30, 2009	1,479	85,610,000	0.060
Changes during the year			
Granted (ii)	-	8,000,000	0.045
Granted (iii)	856	28,555,714	0.035
Vested	203	-	
Cancellation(iv)	(297)	(20,000,000)	0.043
Expired	(436)	(15,695,714)	0.070
Balance – September 30, 2010	1,805	86,470,000	0.055

i) On May 12, 2009, 3,000,000 Options were granted to the Chief Financial Officer (CFO) of the Company at an exercise price of CA $0.04 per share, exercisable for a period of five 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 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%.

ii) On October 19, 2009 the CEO was granted 8,000,000 options to replace 8,000,000 options which expired on September 27, 2009. Each option is exercisable for a period of five years until October 19, 2014 for one common share of the Company at CA$0.045 per share, 1,600,000 to vest immediately, 1,600,000 to vest one year from the date of grant, the balance of 1,600,000 to vest on the second anniversary of the date of grant, the balance of 1,600,000 to vest on the third anniversary of the date of grant, and the balance of 1,600,000 to vest on the fourth anniversary of the date of grant. The options were valued at a fair value of $302,256, using the Black-Scholes valuation model, assuming a

risk –free rate of 2.36%, no dividend, and volatility factor of 130%, of which $72,707 was expensed as stock-based compensation..

iii) The Company renewed 12,555,714 common stock options that were due to expire on April 5, 2010. The new grants of stock option were issued on April 19, 2010 exercisable at CA$0.035 per share for a period of five years from the date of issuance with immediate vesting, which were issued to (i) Directors of the Company (10,155,714 options) and (ii) Employees (2,400,000 options). These options were fair valued at $376,471, using the Black –Scholes valuation model, assuming a risk-free rate of return of 2.54%, no dividend and volatility factor of 132% and expensed as stock-based compensation. In addition, 16,000,000 of new options were issued on April 19, 2010 exercisable at CA$0.035 per share for a period of five years from the date of issuance, which were issued to: (i) Directors of the Company (13,500,000 options); (ii) CFO (1,000,000) and (iii) employees (1,500,000 options). These options were fair valued at $479,744, using the Black –Scholes valuation model, assuming a risks-free rate of 2.54%, no dividend, and volatility factor of 132% and expensed as stock-based compensation.

iv) The former President of the Company resigned on November 4, 2009. 20,000,000 options were cancelled.

The Company recognized total stock based compensation expense of $1,072,559 (2009 - $253,779).

Options outstanding as at September 30, 2010 are as follows:

				2010
Exercise price CA$	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price CA$**	**Options exercisable**
0.065	5,714,286	0.42	0.065	5,714,286
0.045-0.090	40,539,538	2.45	0.069	38,403,723
0.040-0.045	11,660,462	3.92	0.043	3,996,277
0.035	28,555,714	4.55	0.035	28,555,714
0.035-0.090	86,470,000	3.21	0.055	76,670,000

(expressed in thousands of U.S. dollars)

10 Long-term debt

		2010	2009
Description	**Interest rate**	**Principal $**	**Principal $**
OPIC note, due on June 15, 2010 (a)	8.27%	-	401
OPIC note, due on June 15, 2010 (a)	8.39%	-	532
Pimenton note, due on August 15, 2011 (b)	5%	1,944	1,895
C and D Debentures (c)		128	-
		2,072	2,828
Less: Current portion		1,944	933
Long-term debt		128	1,895

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

Fiscal year ended September 30,	
2010	-
2011-2015	480
	480
Less: Future accretion	352
	128

Interest paid by the Company was $144,846 and $155,653 for the years ended September 30, 2010 and 2009, respectively.

a) On June 11, 2009, OPIC 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. The principal repayments were $ 311,111 each quarter. Interest was paid quarterly at the interest rate applicable to the outstanding amount of each disbursement as set forth in the agreement.

   On August 26, 2010 Pimenton fully repaid the OPIC loans.

b) The Pimenton notes which are due on August 15, 2011 were accreted to $1,943,561 as at September 30, 2010 (2009 - $1,894,808), with $48,753 being charged to interest expense in 2010 (2009 - $205,859). Interest expense for the year ended September 30, 2010 was $72,684.

(expressed in thousands of U.S. dollars)

c) On April 21, 2010 the Company issued $300,000 of convertible unsecured debentures (the "C Debentures"). The conversion price of the C Debentures is CA$0.04 per share convertible into up to 7,821,000 shares of common shares of the Company. Interest rate on the C Debentures is 6% payable annually. In addition the C Debenture holders were issued 7,821,000 common share purchase warrants of the Company exercisable for 60 months from the date of issuance at CA$0.05 per share..

For accounting purposes, the convertible unsecured debentures have a liability component, a warrant component and an equity component, which are separately presented in the consolidated balance sheets. The $300,000 face value of the convertible unsecured debentures has been allocated to the liability, warrants and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible unsecured debentures was measured using the Black-Scholes valuation model, assuming a risk-free interest rate of 3.09%, no dividend and a volatility factor of 132%, 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 at September 30, 2010 $111,509 to equity, $114,035 to warrants and $94,466 to debt, with $20,010 being accreted.

On May 11, 2010 the Company issued $330,000 of convertible unsecured debentures (the "D Debentures"). The conversion price of the D Debentures is CA$0.04 per share convertible into up to 8,261,550 shares of common shares of the Company. Interest rate on the D Debentures is 6% payable annually. In addition the D Debenture holders were issued 8,261,550 common share purchase warrants per common share of the Company exercisable for 60 months from the date of issuance at CA$0.05 per share. On August 20, 2010, $230,000 of the D Debentures were converted into 5,758,050 common shares.

For accounting purposes, the convertible unsecured debentures have a liability component, a warrant component and an equity component, which are separately presented in the consolidated balance sheets. The value of the convertible unsecured debentures has been allocated to the liability, warrants and equity components proportionately, based on their respective fair values. The fair value of the conversion feature of convertible unsecured debentures was measured using the Black-Scholes valuation model, assuming a risk-free interest rate of 2.93%, no dividend and a volatility factor of 132%, 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 at September 30, 2010 $141,303 to equity, $96,720 to warrants and $108,856 to debt, with $16,879 being accreted.

(expressed in thousands of U.S. dollars)

11 Warrants

	Number of warrants	$
Balance - September 30, 2008	173,423,028	1,716
Issued (note 9(i))	10,914,198	88
Issued (note 9(ii))	1,414,050	23
Expired warrants	(65,120,680)	(373)
Balance – September 30, 2009	120,630,596	1,454
Modified (a)	-	206
Issued (note 9(vi))	14,650,614	216
Issued (note 10 (c))	7,821,000	114
Issued (note 10 (c))	8,261,550	97
Expired warrants	(37,431,530)	(335)
Balance – September 30, 2010	113,932,230	1,752

(a) On December 1, 2009 the TSX agreed to further extend the expiration date on the 46,187,485 outstanding common share purchase warrants (the "Warrants") and 5,616,936 outstanding common share purchase warrants (the "Broker Warrants") which were due to expire on December 17, 2009, all of which were issued in connection with a private placement on December 17, 2007. The fair value of these modified warrants and broker warrants of $188,321, 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 1.28%, no dividend and a volatility factor of 142%. These warrants were further extended to December 17, 2010, at which time they expire.

(b) On September 9, 2010 the TSX agreed to further extend the expiration date on the 8,137,911 outstanding common share purchase warrants which were due to expire on September 9, 2010, all of which were issued in connection with a non broker private placement on September 9, 2008. The fair value of these modified warrants and broker warrants of $17,887, 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 0.87%, no dividend and a volatility factor of 144%. These warrants were further extended to September 9, 2011, at which time they expire.

The following table summarizes information about the warrants outstanding as at September 30, 2010:

		2010
Number of warrants outstanding	**Weighted average remaining warrant life (years)**	**Weighted average exercise price CA$**
62,718,620	0.21	0.056
20,480,446	0.69	0.054
30,733,164	4.57	0.050
113,932,230	1.47	0.054

12 Contributed surplus

	2010 $	2009 $
Balance - beginning of year	3,145	2,580
Warrants expired (note 11(a))	335	373
Options expired (note 9(c))	436	192
Options cancellation (note 9(c))	297	-
Settlement of A, B and D Debentures (note 9(b (v, vi, viii)))	281	-
Balance - end of year	4,494	3,145

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.

(expressed in thousands of U.S. dollars)

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

	2010 $	2009 $
Balance - Beginning of year	1,995	1,856
Accretion (i)	150	139
Balance - End of year	2,145	1,995

i) The Pimenton Mine achieved commercial production on October 1, 2008. Effective this date reclamation and remediation are discounted and expenses were $149,629 for the year ended September 30, 2010 (2009-$139,190).

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;

The Company's Pimenton segment includes a gold mine and mill operating in Chile. As at and for the years ended September 30, 2010 and 2009, segmented information is presented as follows:

(expressed in thousands of U.S. dollars)

	2010		
	Pimenton $	Corporate $	Total $
Revenues	10,959	-	10,959
Operating cost	(11,466)	(24)	(11,490)
Other income (expenses)			
Write-off of exploration costs	-	(2,240)	(2,240)
General and administrative	(744)	(1,038)	(1,782)
Stock-based compensation	-	(1,072)	(1,072)
Warrants revaluation	-	(206)	(206)
Foreign exchange	377	(53)	324
Interest expense	(244)	(89)	(333)
Other expenses	(65)	-	(65)
Other income	394	263	657
Total other income (expenses)	(282)	(4,435)	(4,717)
Income (loss) for the year	(789)	(4,459)	(5,248)
Total assets	25,057	(3,207)	21,850
Capital expenditures	1,395	895	2,290

	2009		
	Pimenton $	Corporate $	Total $
Revenues	10,316	-	10,316
Operating cost	(8,476)	(19)	(8,495)
Other income (expenses)			
Write-off of exploration costs	-	(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
Capital expenditures	1,800	417	2,217

(expressed in thousands of U.S. dollars)

Of the corporate segment's losses of $4,459,000 and $992,000 in 2010 and 2009, respectively, approximately $1,472,000 and $199,000, 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
Cal Norte	Capital contribution of $1,800,000 to earn 60% equity interest	1,800	1,545
Tordillo	As a compensation for services rendered in connection with Tordillo, the Company entered into an agreement to pay $250,000 within 50 days of first cash flow from the property.	250	-

b) Lease commitments

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

Year ending	September 30, 2010 $
2011	327
2012	172
2013	72
	571
Interest	(39)
	532

(expressed in thousands of U.S. dollars)

16 Related party transactions

A company owned by the CEO (who is also a director) billed the Company $26,041 in 2010 (2009 - $64,220) for the provision of office space and services used by the Company. Receivable from such officer and director of the Company of $236,577 in 2010 (2009 - $240,574) of which $190,289 is the net amount of non-interest-bearing note receivable compensation and $46,117 are cash advances. The note has been extended to September 30, 2011 and is collateralized by 6,532,000 common shares owned by this officer and director.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed the Company $40,712 for accounting and administration services rendered in the period ended September 30, 2010 (2009 - $32,845). Accounts payable and accrued liabilities include payables to this officer of $5,195 for such services at September 30, 2010 (2009 - $7,057).

During 2007, the Executive Vice President and Director of Land and Administration 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 $974,918 at September 30, 2010 (2009 - $957,793) and interest expense was $48,746 in 2010 (2009 - $48,432). Accounts payable and accrued liabilities include $36,459 (2009- $242,358) for interest and $254,979 for royalties as at September 30, 2010 (2009 - $398,136).

Accounts payable and accrued liabilities include $36,224 and $243,984 as at September 30, 2010 and 2009, 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. Such Pimenton note has present value amounts of $968,645 and $951,683 as at September 30, 2010 and 2009, respectively, and interest expense was $48,432 in 2010 (2009 – $48,432). In addition accounts payable and accrued liabilities include $254,979 and $398,136 as at September 30, 2010 and 2009, respectively, for royalties due to this officer and director who is the owner of a net smelter royalty on the Pimenton gold mine.

In September 2010, additional working capital of $831,664, in the form of an advance was provided by the Executive Vice-President of Claims and Land Management and the Executive-Vice-President of Exploration.

On September 9, 2010, the board of directors approved to pay $375,000 to Compañía Minera Auromín Ltda. a company controlled by Mr. David Thomson, Executive Vice President of Exploration, and a director of the Company as compensation for services from January 1, 2009 to March 31, 2010. The board of directors approved to pay 92% of this compensation with the issuance of 12,199,200, bonus shares valued at $345,000 using the TSX closing price of CA $0.03 per share, leaving a balance of $30,000 due as of September 30, 2010.
On April 1, 2010, a Company owned by David Thomson, Executive-Vice President-Director of Exploration and a director of the Company, Compañía Minera Auromin Ltda, entered into a services contract with the Company for a period of two years, which will be renewed for an additional two year period at the end of each year. Under the term of the contract, Compañía Minera Auromin Ltda. is to be paid, $300,000 per year. The services to be provided by Compañía Minera Auromin Ltda. include; seeking new mining projects; performing geological studies and design drill programs for the Company on exploration projects; conducting preliminary design of the mining plan for designated project and providing other services related to the explorations and development of mining projects. As of September 30, 2010 accounts payable and accrued liabilities included $150,000.
On September 9, 2010, the board of directors approved to pay $137,500 to Minera Chañar Blanco S.A., a company controlled by Mr. Mario Hernández, Executive Vice President of Claims and Land Administration,

(expressed in thousands of U.S. dollars)

and a director of the Company as a compensation for services from January 1, 2009 to March 31, 2010. The board of directors approved to pay 92% of this compensation with the issuance of 4,473,040, bonus shares valued at $126,500 using the TSX closing price of CA $0.03 per share, leaving a balance of $11,000 due as of September 30, 2010.

On April 1, 2010 a Company owned by Mr. Mario Hernández, Executive-Vice President-Director of Claims and Administration and a director of the Company, Compañía Minera Chañar Blanco S.A., entered into a services contract with the Company for a period of two years, which will be renewed for an additional two year period at the end of each year. The services to be provided by Minera Chañar Blanco S.A. include: maintaining title and ownership of mining properties acquired by the Company; acquiring water rights or request concessions of water rights on the properties acquired by the Company; and negotiations the acquisition of new mining properties for the company. As of September 30, 2010 accounts payable and accrued liabilities included $55,000.

Company made payments and issuances of securities to certain directors and officer. During the year ended September 30, 2010, the expense were $24,706 ($39,223 – 2009).

On September 9, 2010, the board of directors approved to pay $98,918 to the CEO, who is also director of the Company as compensation for services from January 1, 2009 to March 31, 2010. The board directors approved to pay 92% of this compensation with the issuance of 3,497,766, bonus shares valued at $91,005 using the TSX closing price of CA $0.03 per share.

On April 1, 2010, CEO, who is also a director of the Company entered into a salary contract for a period of two years, which will be renewed for an additional two year period at the end of each year. Under the terms of the contract, the "CEO" is to be paid $110,000 per year.

On April 21, 2010, Mr. David Thomson and Mr. Mario Hernandez both Executive Vice Presidents and directors of the Company through their companies Compania Minera Auromin Ltda, and Compania Minera Chanar Blanco S.A., respectively, each acquired one debenture convertible into common shares of the Company (each, an "A Debenture"). Mr.Hernandez acquired an A Debenture in the aggregate principal amount of $716,105 which is convertible into up to 16,312,866 common shares of the Company. Mr.Thomson acquired an A Debenture in the aggregate principal amount of $714,400 which is convertible into up to 16,274,022 common shares. The A Debentures were issued in payment of past due interest and royalties payable to Messrs. Hernandez and Thomson through to December 31, 2009 by CMP. The conversion price of the 5 year A Debentures is CA$ $0.045 per share convertible into an aggregate of up to 32,586,888 common shares of the Company. The interest rate on the A Debentures is 6% payable annually. No warrants are attached to the A Debentures. The Company has the right to call the A Debentures at any time one year after the date of issue on 30 days notice to the holders. On June 29, 2010. Mr. David Thomson and Mr. Mario Hernandez both Executive Vice Presidents and a directors of the Company elected to convert the $1,430,505 A Debentures, which were due to mature on April 21, 2015, into 32,586,888. These shares were value at $928,489 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a gain of $523,544 of which $222,539 was recorded as other income for the three months ended June 30, 2010 and $301,005 was recorded as contributed surplus. Accounts payable and accrued liabilities include payables to these officers of $6,202 as at September 30, 2010 for interest on such debentures.

(expressed in thousands of U.S. dollars)

On April 21, 2010, Mr. David Thomson and Mr. Mario Hernandez both Executive Vice Presidents and directors of the Company through their companies Compania Minera Auromin Ltda, and Compania Minera Chanar Blanco S.A., respectively, each acquired one debenture convertible into common shares of the Company (each, an "B Debenture"). Mr.Thomson acquired a B Debenture in the aggregate principal amount of $250,000 which is convertible into up to 6,406,970 common shares together with up to 6,406,970 common share purchase warrants. Mr.Hernández also acquired a B Debenture in the aggregate principal amount of $321,667 which is convertible into up to 8,243,644 common shares together with up to 8,243,644 common share purchase warrants. The B Debentures were issued in payment of cash advances by Messrs.Hernandez and Thomson to the Company totalling $571,667 which cash advances were used for working capital and to fund capital expenditures on Pimenton. The conversion price on the five year B Debentures is CA$ $0.04 per share convertible into an aggregate of up to 14,650,575 common shares of the Company. Interest rate on the Debenture is 6% payable annually. In addition the B Debenture holders were issued 14,650,575 warrants exercisable at CA$ $0.05 per common share of the Company. Net proceeds of the placement were $356,132, of which $215,535 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 3.2%, no dividend and a volatility factor of 132%. On June 29, 2010, Mr. David Thomson and Mr. Mario Hernández converted the B Debenture which were due to mature on April 21, 2015 into 14,650,575 common shares. The exercised shares were valued at $417,435 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a loss of $55,893 of which $53,320 was recorded as a reduction in other income and $2,573 was recorded as contributed surplus. Accounts payable and accrued liabilities include payables to these officers of $15,519 as at September 30, 2010 for interest on such debentures.

On June 9, 2009, 2,469,571 common shares valued at CA$0.035 were issued to two officers (Executive-Vice President, Claims and Land Management and Executive-Vice-President and Director of the Company Exploration) who are also Directors and were issued in lieu of interest payments, due for the period of March 31, 2008 to March 31, 2009 on the US$1,600,000 Convertible Secured Debenture issued to it in 2006. Interest expense was $47,055 for the periods ended June 30, 2009 Accounts payable and accrued liabilities include payables to these officers of $9,095 as at September 30, 2010 for interest on such debentures.

17 Supplemental cash flow information

	2010 $	2009 $
Changes in non-cash working capital relating to operations		
Receivables	(310)	(228)
Inventories	(379)	(38)
Recoverable taxes	1,043	(415)
Accounts payable and accrued liabilities, excluding interest in accrued liabilities	166	(149)
Taxes payable (VAT)	(141)	33
	379	(797)

Significant non-cash financing and investing activities

(expressed in thousands of U.S. dollars)

	2010 $	2009 $
Shares and warrants issued	(2,143)	(1,303)
Total interest paid	88	127

No income taxes were paid during 2010 and 2009

18 Financial instruments

(a) Financial assets and liabilities

The Company's financial instruments at September 30, 2010 and 2009 consist of cash, accounts receivable, accounts payable and accrued liabilities and current and long-term debt.

Classification of financial assets and liabilities

Cash is classified as held-for-trading. Accounts receivable arising from sales of metal concentrates are designated and classified as held-for-trading. Held-for-trading financial assets are measured at fair value with mark-to-market gains and losses recorded in earnings in the period they occur. The carrying amounts of cash approximate their fair values. The change in fair values of accounts receivable arising from sales of metal concentrates result from changes in metal market prices to which the related revenues are subject. These changes are recorded in revenue in the period they occur. Accounts receivable not arising from sales of metal concentrates are classified as loans and receivables. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities.

Fair value measurements of financial assets and liabilities recognized in the balance sheet

The amendments to Section 3862 introduce a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – inputs that are not based on observable market data.

At September 30, 2010, the levels in the fair value hierarchy into which the Company's financial assets and liabilities measured and recognized in the balance sheet at fair value are categorized are as follows:

Level 2

(expressed in thousands of U.S. dollars)

Cash		$1,470
Accounts receivable arising from sales of metal concentrates	-	454

At September 30, 2010, there were no financial assets or liabilities measured and recognized in the balance sheet at fair value that would be categorized as level 3 in the fair value hierarchy above.

Fair values of financial assets and liabilities not already measured and recognized at fair value in the balance sheet

At September 30, 2010 the carrying amounts of accounts receivable not arising from sales of metal concentrates and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments.

(b) 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, 2010, the Company had a negative working capital of approximately $1,093,000 which included cash of $1,470,000. At September 30, 2010 the Company's accumulated deficit was approximately $68,337,000 and shareholders' equity was approximately $12,928,000.

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

Sensitivity Analysis

As of September 30, 2010, 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.

(expressed in thousands of U.S. dollars)

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

Economic dependence

In May, 2010 the Company started to produce its own gold doré at the mine site. In the same month the Company started to ship the gold doré bars directly to a gold refinery in Europe. The refinery pays for 90% of the value of gold shipment the week following delivery and the balance of the payment is made less than a month from the day of receipt of the initial payment. For the year ended at September 30, 2010 the Company has sold approximately 35% to a gold refinery in Europe, which sales started on May 24, 2010, and 65% to Enami to smelter its gold and copper concentrate for the year ended at September 30, 2010. Enami 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 initial payment.

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 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

Paul J. DesLauriers*(1),(2)
Toronto, Canada
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

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.

Richard J. Lachcik*
Toronto, ON, Canada

Fernando Saenz Poch*
Concepción, Chile

Juan A Proaño*
Potomac, Maryland
Director of Minera Poderosa S.A.
a gold mining company located in Peru

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

John J. Selters*
Santiago, Chile
General manager of Magna Energy Chile Ltda.
Santiago, Chile

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

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

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

Corporate Information

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