

**SOUTH AMERICAN GOLD AND COPPER  
COMPANY LIMITED**

**ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**JANUARY 6, 2006**

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## PRELIMINARY NOTES

### Currency Exchange Rates

Unless otherwise indicated, all currency amounts in this Annual Information Form are expressed in United States dollars. The following table sets forth the currency exchange rates for the conversion of United States dollars into Canadian dollars for the following years ended September 30 (the Corporation's fiscal year end), as reported by the Bank of Canada. The average rates were manually calculated for the 12-month period starting October of the prior year and ending September 30 each year. The average prices were calculated by taking each month's average, as reported by the Bank of Canada, summing up the average for each twelve-month period and dividing by 12.

	2005	2004	2003	2002	2001
Closing (As at September 30)	1.1627	1.2699	1.3499	1.5872	1.5785
Average (October 1 – September 30)	1.2233	1.3250	1.4638	1.5730	1.4055

### Conversion Table and Technical Abbreviations

Amounts in this Annual Information Form are generally in metric units. Conversion rates from Imperial measure to metric and from metric to Imperial are provided below.

Imperial Measure	= Metric Unit	Metric Measure	= Imperial Measure
2.47 acres	1 hectare	0.4047 hectares	1 acre
3.28 feet	1 meter	0.3048 meters	1 foot
0.62 miles	1 kilometer	1.609 kilometers	1 mile
0.032 ounces (troy)	1 gram	31.1035 grams	1 ounce (troy)
1.102 tons (short)	1 tonne	0.907 tonnes	1 ton
0.029 ounces (troy/ton)	1 gram/tonne	34.28 grams/tonne	1 ounce (troy/ton)

All ounces are troy ounces; 14.58 troy ounces equal one pound (containing 16 Imperial ounces).

#### Abbreviations

Ha	Hectares	tpd	tonne per day
g	grams	Oz.	ounces
g/t	grams per tonne	km	kilometers
ppb	parts per billion	T	tonnes

Unless the context otherwise requires, references to the "Corporation," "South American Gold and Copper Company Limited," or "SAGC" in this Annual Information Form refer to South American Gold and Copper Company Limited and its subsidiaries.

### Disclosures Regarding Forward-Looking Information

Certain information contained or incorporated by reference in this Annual Information Form, including the information set forth as to the future financial or operating performance of the Corporation, constitute "forward-looking statements" within the meaning of securities laws. Forward-looking statements may relate to the future outlook of the Corporation and anticipated events or results. In particular, statements regarding the Corporation's future operating results and economic performance are forward-looking statements. Forward-looking statements are made on management's belief as well as assumptions made by,

and information currently available to, management of the Corporation. While such beliefs and assumptions are considered reasonable by the Corporation, they are inherently subject to significant business, economic and competitive uncertainties and contingencies or they may prove to be incorrect. Important factors which could cause actual results to differ materially from those projected in the forward-looking statements include fluctuations in the market price of gold, changes in government legislation in the countries in which the Corporation operates, business opportunities which may be presented to or pursued by the Corporation, contests over title to properties, general and environmental risks and hazards associated with gold mining. Many of these issues can affect the Corporation's actual results and could cause its actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Corporation. Readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Corporation expressly disclaims any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations with regard thereto or any changes in events, conditions or circumstances on which any statement is based.

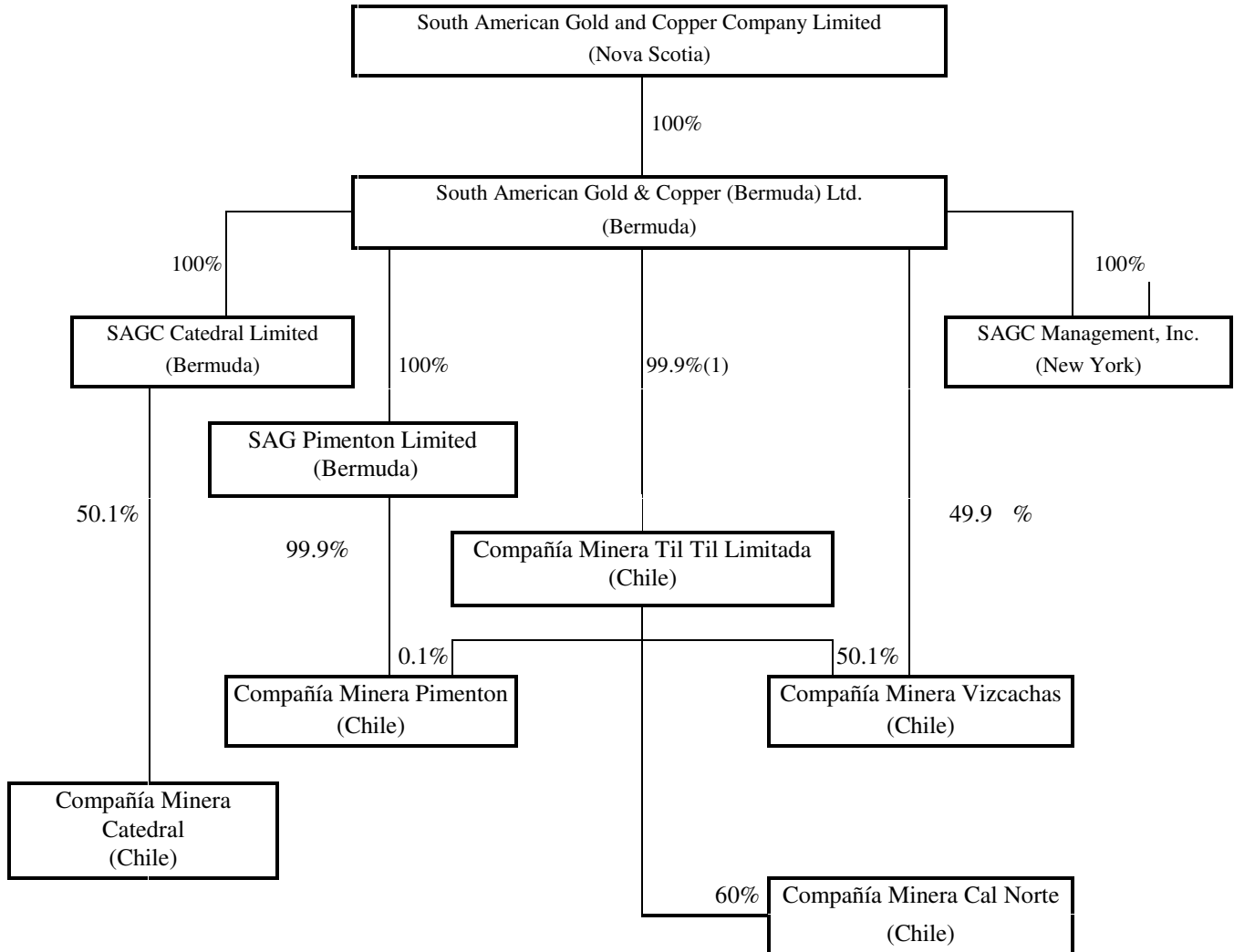
#### **ITEM 1: INCORPORATION**

South American Gold and Copper Company Limited was originally incorporated on May 6, 1991, under the laws of the Cayman Islands, British West Indies, under the name of South American Gold & Copper, Ltd. On May 12, 1994, Osborne & Chappel Goldfields Limited ("O&C"), incorporated under the laws of Bermuda on March 15, 1985, acquired all of the issued shares of South American Gold & Copper Company, Ltd. ("Old SAGC") in exchange for new shares of O&C. This form of business combination is known as a reverse takeover. Subsequent to the acquisition of old SAGC, O&C changed its name to South American Gold and Copper Company Limited ("SAGC" or the "Corporation") and its fiscal year to September 30. At the time of the acquisition of Old SAGC by O&C, O&C's common stock was listed on the Toronto Stock Exchange ("TSX"), but suspended from trading due to its not meeting certain financial criteria. Following the reverse takeover, the Toronto Stock Exchange approved reinstatement of trading in the shares of SAGC on May 18, 1994. In March 1996, SAGC shareholders approved the transfer and consolidation of all SAGC's assets and liabilities from the British West Indies Corporation to and into its Bermudian subsidiary and on October 3, 1996, SAGC became subject to the "Companies Act" of the Province of Nova Scotia, Canada.

The registered office of the Corporation is located at Suite 800, Purdy's Wharf, 1659 Upper Water Street, Tower One, Halifax, Nova Scotia. The Corporation's business office is located at 67 Yonge Street, Suite 1201, Toronto, Ontario M5E 1J8, Canada. The Corporation's principal activities are conducted from its offices in Santiago, Chile, located at La Concepcion 266, of. 701, Providencia, Santiago, Chile. The Corporation also has an office at 420 Madison Avenue, Suite 901, New York, New York 10017.

The corporate structure of South American Gold and Copper Company Limited is set out in the chart on the following page:

**SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED**



(1) Under Chilean law, a limited liability company must have at least two shareholders. The other 0.1% interest is held by Mr. Stephen W. Houghton, the Corporation's founder, President and Chief Executive Officer.

\* All shareholdings represented on this chart are of common shares.

**ITEM 2: GENERAL DEVELOPMENT OF THE BUSINESS**

The Corporation is a mining company with mineral exploration and development properties. The business of the Corporation is to acquire, explore, develop and operate natural resource properties, either alone or in joint venture with other companies. SAGC has one producing gold mining property.

During the years 1996 and 1997, the Corporation's principal activities may be described as the exploration and development of its Pimenton gold property located in the IV Region of Chile, the exploration of its Antena gold property located in the Metropolitan Region of Chile and preparation of a Phase 1 Feasibility Study for a cement manufacturing facility supported by its Rino limestone deposit located in the Metropolitan Region of Chile. Following a significant decline in the price of gold in 1997, development of Pimenton was placed on "care and maintenance" and exploration activities on Antena were placed on hold.

During 1998, the directors of the Corporation determined that the Corporation should focus its activities on the development by way of sale or joint venture of its Rino cement project and that the Corporation should attempt to identify one or more small industrial mineral projects for the Corporation. In 1999, the Corporation and its financial advisor determined that due to a significant decline in economic activity in Chile brought on by the "Asian crisis," it would not be feasible to sell or joint venture the Rino Cement project and the decision was taken to defer further efforts to sell or joint venture the project.

In July 1999, the Corporation entered into an agreement with Compañía Minera Quelon for the formation of Compañía Cal Norte in which SAGC holds a 60% interest through its subsidiary Compañía Minera Til Til Limitada. Compañía Cal Norte owns the mining equipment, mine facilities and limestone (CaCO<sub>3</sub>) deposits, "Hornito" and "Ceci Tres," formerly owned by Compañía Minera Quelon. The limestone deposits had been in production for six years, prior to October 1999, selling high-grade limestone to a Chilean cement producer.

In August 1999, a feasibility study on Cal Norte was completed for the development of an oil fired dual vertical shaft lime kiln manufacturing facility with the capacity to produce 150 metric tonnes per day of metallurgical grade lime. The proposed lime manufacturing facility is to be located at the Cal Norte mine site which is located 65 km to the north of Illapel in the IV Region of Chile and approximately 320 km north of Santiago.

As a part of the feasibility study on Cal Norte, a market study of the demand and available supply of high-grade metallurgical lime in Chile was completed. Metallurgical grade lime is used by certain segments of the Chilean mining industry for pH adjustment in the plant flotation process of copper, gold, silver and other metals and for treatment of tailings and mine run-off water following mine closures. The market study indicated that the current consumption of metallurgical grade lime is expected to increase substantially in the Central Regions of Chile (which are made up of Regions IV, V, the Metropolitan Region and Region VI of Chile) over the next five years and that without new lime kiln capacity, the Central Regions will be required to place a high degree of reliance on metallurgical lime imports from foreign countries.

The market study also indicated that there appears to be a lack of well located high-grade limestone deposits in the Central Regions of Chile capable of producing and supporting the production of good quality metallurgical grade lime where a substantial part of the increased demand for metallurgical grade lime is expected to originate.

As a result of the expected growth in the demand for metallurgical grade lime in the Central Regions of Chile, the Corporation initiated renewed exploration activities in 1999 on its Catedral limestone deposit which lies adjacent to its Rino limestone deposit. The Catedral limestone deposit is located 120 km southeast of Santiago and adjacent to the recently completed natural gas pipeline from Argentina to Santiago, Chile.

During 2000, the Corporation worked to establish the business relationships required for its entry into the metallurgical-grade lime business in the Central Regions of Chile. Four major copper mining complexes

and three copper smelters are located within these Regions. The Corporation's research indicated that in 2000 each of the four major mining complexes in the Central Regions consumed from 115 up to 250 tons of lime per day or a total estimated consumption of 247,000 tons per year. This consumption rate was projected to increase substantially as a result of mine expansion programs in progress.

The Corporation also initiated plans for a detailed channel sampling program on its Catedral limestone deposit and initiated work on a pre-feasibility study for the possible development of a 420 to 600 tonne per day capacity lime processing facility at the site of its Catedral limestone deposit. "Base line" environmental impact studies were also initiated.

In October 2000, Compañía Minera Cal Norte received all requisite environmental permits for development of its lime kiln and related facilities following which it initiated discussions for entering into one or more contracts for the sale of all or a substantial part of the project's lime production. In March 2001, Compañía Minera Cal Norte received a "letter of intent" which contained pre-contract "conditions". Following receipt of the "letter of intent" Cal Norte devoted a part of its time during 2001 fulfilling several of the tasks required under the "conditions" of the "letter of intent." In mid-2001 world crude oil prices began to increase which caused Cal Norte to reassess the use of a vertical shaft oil fired kiln. As natural gas is not available at the Cal Norte plant site, the decision was made to change the kiln design of the Cal Norte project to a horizontal rotary shaft kiln with a pre-heater fired by coal. This necessitated a revision to the previously completed feasibility study. The revised feasibility study was completed in November 2001. Due to time constraints, the company that had issued the letter of intent determined that it could not defer entering into other contractual arrangements.

During 2001, the Corporation completed a channel sampling program on its Catedral limestone deposit.

During 2001, the Corporation also focused a part of its efforts on exploration for high-grade copper mineralized deposits. The Corporation signed an option agreement to acquire a 100% interest in the Lorito copper stockwork breccia prospect. The Corporation subsequently drilled three reverse circulation drill holes totaling 556 meters. Assay results from the first three drill holes in relation to the potential volume of mineralization did not justify continuing with the drill program and the prospect was returned to its owners.

During 2002, the Corporation completed an extensive field surface exploration program and a successful acreage acquisition program on its Meseta copper prospect. The Corporation subsequently initiated a percussion drill program on the prospect. The drill program was not successful. While copper mineralization grading up to one percent copper per tonne was found, the drill program indicated a lack of continuity of mineralized ore and therefore uneconomic. The prospect was abandoned.

In addition, the Corporation undertook a two-hole drill program on its Antena gold project. The drill program was not successful and the Corporation decided to write-off the balance of its investment in the property.

Also during 2002, the Corporation initiated a review of its previously prepared pre-feasibility study for restarting operations at its 100% owned Pimenton gold mine. This review led to the filing of a technical report for the property dated September 30, 2002. In addition, a preliminary feasibility study for restarting operations at Pimenton was also completed. The technical report filed in relation to Pimenton is discussed under "Narrative Description of the Business – Pimenton, Chile" below.

Also during 2002, Metso Minerals Industries, Inc., Danville, Pennsylvania, completed testing and issued a report entitled "Final Test Report" Rotary Batch Kiln Test on Cal Norte's Hornito Limestone Deposit, dated August 2002.

The Corporation also progressed in its work on a preliminary feasibility study of the Catedral lime project and successfully drilled and completed a water well on the property.

During 2003, the Corporation received \$901,000 as a result of the exercise of 24,142,569 warrants into common shares of the Corporation which had been issued in prior private placements completed by the Corporation. In November and December 2003, the Corporation received net proceeds of \$4,498,000 from the closing of two private placements.

Also during 2003, Cal Norte engaged Constructions BDS S.A., a Chilean construction firm which teamed with Areza, Recené Y Asociados Ingenieros Consultores S.A., a Chilean engineering firm, to review the Cal Norte preliminary feasibility study dated August 2001 and to provide a  $\pm 20\%$  cost estimate on the project based on increasing the plant capacity from 150 tons of lime production per day up to 180 tons per day of lime production. This analysis included (1) a summary cost estimate, (2) details of cost estimating, (3) a construction program and (4) total project programs. Further results of this study are discussed under "Narrative Description of the Business - Compañía Minera Cal Norte Property, Chile - Current Status" below.

During 2003, the Corporation's principal focus was directed to the Pimenton gold project. In April 2003, the Corporation's subsidiary, Compañía Minera Pimenton, completed an internal report on the re-start of operations at its Pimenton gold mine. This report, along with Compañía Minera Pimenton's previously filed technical report dated September 30, 2002 on the Pimenton property and a formal loan application, were submitted to the Overseas Private Investment Corporation ("OPIC"), headquartered in Washington, DC. Following OPIC's review of the foregoing documentation, OPIC engaged Pincock, Allen & Holt ("PAH"), Denver, Colorado, an independent mining engineering consulting firm, to review and to prepare a due diligence report on Compañía Minera Pimenton's plan to restart operations at Pimenton. PAH's review of the project included on-site visits to Santiago and to the mine. In August 2003, PAH issued a positive report to OPIC entitled "Due Diligence of the Restart of the Pimenton Gold Mine, Central Chile."

In December 2003, Compañía Minera Pimenton entered into a loan agreement in the amount of \$2,800,000 and on completion of loan documentation on January 30, 2004, received the first draw down of \$1,200,000 under the terms of the OPIC loan agreement. Compañía Minera Pimenton received the second and final draw down of \$1,600,000 in May 2004, following the receipt of a letter from PAH confirming the project had reached "Physical Completion" as defined in the loan agreement.

The OPIC financing was conditioned on Stephen W. Houghton, President and Chief Executive Officer of the Corporation agreeing to personally guarantee 26% of the OPIC financing until the project reaches "Financial and Operational Completion" as defined in the loan agreement and on the condition that Mr. Houghton retain his common stock ownership position in the Corporation at not less than the number of common shares which he held in the Corporation as at January 30, 2004.

On July 1, 2004 the Pimenton mine was officially declared to be in commercial operation. Further results of the Pimenton operation since July 1, 2004 are discussed under "Narrative Description of Business-Pimenton Property, Chile-Operations", below.

In October 2004, the Corporation initiated joint venture discussions with selected international mining companies that previously expressed an interest in Corporation's porphyry copper potential at Pimenton. These discussions are in progress. This initiative was taken in order to enhance planned exploration activities and expenditures on the porphyry copper mineralization at Pimenton. If joint venture discussions are concluded satisfactorily, the Corporation will retain its 100% interest in the Pimenton gold mine.

The Corporation also entered into discussions with a global producer of lime and limestone products to supply metallurgical grade lime to a Chilean mining company and to establish Chilean based production facilities of lime utilizing the Corporation's Catedral and possibly the Cal Norte limestone properties. The Corporation and the global producer are currently analyzing various alternatives for meeting the Chilean mining company's lime supply requirements. Further details of these activities are discussed under "Narrative Description of Business-Catedral/Rino Property (Chile) – current status" below.



In October 2004, the Corporation raised proceeds of Cdn. \$3,010,000 (before underwriting commissions and expenses) by way of a private placement of common shares and units of the company. The financing consisted of 40,000,000 units, each unit comprising one common share and one-half common stock purchase warrant. In addition, 3,000,000 common shares were placed, of which 1,847,000 shares were purchased by Stephen W. Houghton, President and Chief Executive Officer of the Corporation. Proceeds from this financing are being used to advance exploration on the aforementioned Corporation's porphyry copper deposit at Pimenton, to supplement the aforementioned joint venture discussions with a global producer of lime and limestone products for the supply of lime into the Chilean market, as well as for general corporate purposes.

In March 2005 the Corporation completed a preliminary exploration program on its recently acquired 100% owned Tordillo gold/copper prospect which covers an area of just under 7000 hectares and is located approximately 11.5 kilometers south southwest of the Corporation's Pimenton gold mine and potential porphyry copper deposit.

Also in March 2005 Rio Tinto Mining and Exploration Ltd. ("Rio Tinto") and South American Gold and Copper Company Limited signed a Letter Of Understanding ("LOU") which served as the basis for entering into a formal Joint Venture Option Agreement for the exploration of development of the porphyry copper deposit at Pimenton. Under the terms of the LOU, Rio Tinto agreed to fund and complete a 2,600 to 3,000 meter diamond drill program at Pimenton within one year of the signing of the LOU. Following the completion of this drill program Rio Tinto was given the right to exercise an option to enter into a formal Joint Venture Option Agreement under the terms of which Rio Tinto must fund a total of US \$10 million within four years of the date of signing the LOU under a minimum annual budget of expenditures and complete a feasibility study on the project within seven years of signing the LOU in order to earn a 60% interest in the porphyry copper mineralization at Pimenton, but excluding the current gold mining operations at Pimenton.

In June 2005 mining operations at the Corporation's Pimenton gold mine were adversely impacted by a series of unusual weather factors which caused severe avalanche conditions during the period June 9, 2005, to June 19, 2005. The main portal entrance to the Pimenton mine was heavily impacted by avalanches which caused damage to electrical equipment and air compressor equipment which rendered the mine inoperable. The details of these events and the current status of negotiations with the Corporation's insurance company are discussed under Pimenton Property, Chile – Operations.

In August 2005, Rio Tinto notified SAGC of its intention to exercise its option to enter into a Joint Venture Option Agreement.

In November 2005, the Corporation received Toronto Stock Exchange approval to reduce the exercise price from Cdn \$0.09 to Cdn. \$0.055 and extend the expiration date to November 30, 2005, on warrants issued in connection with its November 2003 private placement, which were due to expire during the month of November 2005.

### **ITEM 3: NARRATIVE DESCRIPTION OF THE BUSINESS**

#### ***The Corporation***

The Corporation commenced commercial production at its Pimenton gold mine in July 2004. The Corporation is also engaged in the exploration of other mineral properties and in the development of its limestone deposits. Its exploration and development interests are concentrated in Chile.

The Corporation currently has interests, through its subsidiary companies, in four principal properties, Pimenton (100%), Tordillo (100%), Catedral/Rino (50.10%), and Cal Norte (60%), all of which are located in Chile.

The Corporation has four officers. The Corporation and its subsidiaries employed 170 people as of December 31, 2005.

The Corporation's accounting in Chile is handled by an accounting service, which maintains 5 full-time persons in SAGC's Chilean office.

### ***Economic Environment and Operations***

The principal area on which the Corporation is focusing its exploration efforts is Chile. The competition for good exploration prospects can be intense. Many mining companies operating in Chile have far greater resources than the Corporation. Therefore, the Corporation may not always be successful in acquiring exploration prospects that it has identified.

The principal area in Chile where the Corporation's proposed Cal Norte and Catedral lime projects are located is in the Central Regions of Chile (Regions IV, V, VI and the Metropolitan Region). These regions are currently supplied by one independently-owned lime processing company and one lime kiln owned by the El Teniente Division of Codelco, the Chilean state-owned copper company which, up until December 2004 supplied a part of the El Teniente Division's lime needs. El Teniente is now importing lime into Chile from Argentinean to meet its lime requirements. The Argentinean lime suppliers may offer strong price competition to the Cal Norte and Catedral projects.

The parts and equipment currently being used or which may be used by the Corporation in its exploration, mine property development and plant operations are readily available in Chile. If imports of specialized equipment or parts are required, Chile's import duty and customs procedures are clearly defined and well managed by the Chilean authorities.

The gold and copper mining business is cyclical and can be greatly impacted either positively or negatively by the world price of copper and gold.

The lime business is generally conducted through medium (two to five years) term sales contracts with price escalation clauses and not impacted by day to day price changes.

While the mining businesses in which the Corporation operates are not seasonal, the location of specific mining operations in Chile can be adversely impacted by seasonal weather conditions. Both Pimenton and Catedral are subject to harsh winter weather conditions including potential avalanche conditions, high winds and sub-zero temperatures. Cal Norte is not subject to harsh winter weather conditions.

The Corporation does not have any material contracts or subcontracts that are subject to renegotiation or termination in the current fiscal year ending September 30, 2005.

### ***Mine Concessions in Chile***

The acquisition and maintenance of mining concessions is of critical importance to the Corporation.

Chile's mining policy has been to develop a strong body of laws that promotes both local and foreign investment. Many of the legal provisions concerning mining activities were enacted in 1980.

A Chilean mining concession is a property right, distinct and independent of the ownership of land on which it is located, even though both may belong to the same person or entity. The rights guaranteed by mining concessions are defensible against third parties, transferable, chargeable and, in general, may be the subject of any transaction or contract. A mining concession is not susceptible to physical division and can only be divided by percentage parts or shares. Buildings and other structures in a mining operation are real property accessories to the concession on which they are located.

If claims are filed on land owned by landowners, the claims holder must negotiate a "servidumbre" (right of way) with the landowner. If a reasonable compensation amount cannot be negotiated with the landowner for the servidumbre, the concession holder may seek remedies from the local Court having jurisdiction in

the area in which the claims are located. There is a strong body of law in Chile that gives concession owners the right of access and the right to explore and develop mining concessions.

The Chilean Mining Law, Constitutional Organic Law No. 18097 of 1982, provides the legal framework for the exploration and exploitation of mining concessions. The law provides that mining concessions are granted by the courts and can be mortgaged or transferred. A concession owner has full ownership rights. The concession holder also has the right to defend his ownership interests against the state and third parties.

The Corporation maintains a database of all of its claims. Under the Chilean claims system, a claimant may file on top of (“top filed”) an existing claims holder. Once claims are filed under the claims procedure, they are published in the *Mining Bulletin* (which is printed weekly and subscribed to by the Corporation). In the event that a claims holder is top filed, the top filer has no rights to the claim unless the original claim holder lets its claim lapse for lack of payments. Alternatively, the top filer may announce his intention in the *Mining Bulletin* to measure the claims if the claims are held in the “Pedimento” (a well-defined initial exploration claim with a duration of two-years) stage by the original claims holder. On receipt of the *Mining Bulletin*, the Corporation’s land department reviews all newly published claims by inputting the newly published claims’ registration number into the computer program which then runs a cross-check of published claims against the claims that the Corporation holds. If a top filing situation exists, the Corporation must take appropriate action to defend its claims position.

The Congress and Senate of Chile have been engaged in a continued debate with respect to imposing a royalty on minerals produced from Chilean mining properties. Passage of the proposed royalty would take a vote of four sevenths of the members of both the Congress and the Senate. The Congress has achieved the required vote but the Senate has not. Discussions are now centered on increasing the corporate income tax on those mining companies that have not registered under rule DL-600. Currently the minimum tax rate on non-distributed income is 17% for non-registered DL-600 companies and a maximum tax on distributable income of 35%. The Congress and Senate are now considering increasing the maximum tax from 35% to 38%. DL-600 registered companies currently are subject to a 17% tax on non-distributed income and a tax of 45% on distributed income. DL-600 registered companies will be given the right to elect to become non DL-600 registered companies. Companies electing to remain DL-600 registered will not be affected by the proposed tax increase.

The Corporation’s wholly-owned Chilean subsidiary, Compañía Minera Til Til Ltda is a DL-600 registered company. All incoming funds provided by the Corporation to its operating activities in Chile are registered under DL-600. For the foreseeable future the Corporation will retain DL-600 registered status of Compañía Minera Til Til Ltda.

Under DL-600, all inflows of funds are registered with the Central Bank of Chile. All registered incoming funds are guaranteed to have the right of repatriation at the Central Banks published convertibility rate on the day of repatriation.

### ***Regulatory Matters***

If the Corporation is successful in its efforts to initiate construction on its Cal Norte lime project, it will file an amendment to its currently approved environmental impact studies.

Compañía Minera Cal Norte has retained Jaime Illanes y Asociados (Consultores S.A.) to submit an environmental addendum for the installation of a coal-fired, rotary design kiln in place of the oil-fired vertical kiln considered previously. Jaime Illanes y Asociados in a letter to Minera Cal Norte dated November 5, 2001, anticipates no problems in obtaining regulatory approval for this change and estimated no more than 90 days will be required for approval. The cost for filing this amendment is estimated to be less than \$20,000.

The Corporation received confirmation from SERNAGEOMIN, the Chilean state mining and permitting authority, that Compañía Minera Pimenton did not require new permits in order to reactivate operations at

Pimenton. The Corporation submitted an application for expansion of the Pimenton mine's tailings deposits, which was approved by SERNAGEOMIN on December 17, 2004, as discussed under "Narrative Description of the Business – Pimenton Property, Chile" below.

### **Pimenton Property, Chile**

In October 2002 the Corporation's subsidiary, Compañía Minera Pimenton, filed a technical report dated September 30, 2002 (the "Pimenton Technical Report") in respect of its Pimenton gold property in accordance with Canadian Securities Administrator's National Instrument 43-101 - *Standards of Disclosure for Mineral Projects* ("43-101"). The Pimenton Technical Report was prepared by John J. Selters of Selters and Company Ltda., independent consultants to the mining industry based in Santiago, Chile. Mr. Selters is an independent qualified person under the requirements of Canadian Securities Administration National Instrument 43-101.

The following summary is based primarily on the Pimenton Technical Report, which is available on SEDAR. The Pimenton Technical Report is supported by a preliminary feasibility study for re-commencing operations at Pimenton completed in October 2002, by Selters and Company Ltda. under the direction of Mr. Selters.

### ***Property Description and Location***

Pimenton is located within the San Esteban Comuna in the Los Andes Province of Chile's fifth region, approximately 175 km by road north of Santiago, and approximately 195 km by road from the Enami (the state-owned National Mining Company) smelter at Ventanas. Enami processes gold/copper concentrate for many of the mines located in central Chile.

Pimenton's mineral rights are secured by a block of continuous and protective mining claims covering an area of approximately 2,800 hectares within a rectangular figure of 6 km north-south by 5 km east-west. The Corporation's claims are the equivalent of patented claims in North America and are valid mineral property rights so long as the annual fees of approximately \$4.00 per hectare are paid. The patent fees have been paid to March 2005 and will be renewed when due.

The surface rights in the area are the property of a group called Comunidad Los Campos de Cerro Gallegos. The Corporation's subsidiary, Compañía Minera Pimenton ("CM Pimenton"), has been granted a "servidumbre" (right of access) to carry out all exploration and mining activity at Pimenton. The area subject to the agreement with the Comunidad covers all of the claims area plus sectors in valleys south of the claims, the right to construct improved access roads in the main valley, and a possible power line.

On November 29, 1996, CM Pimenton purchased from Messrs. Thomson (now a director of SAGC) and Bernstein an additional 44% interest in Pimenton's principal gold prospect, increasing its interest to 100%. On the purchase, \$2 million was paid and notes (the "Pimenton Notes") representing the balance of the purchase of a further \$1,943,561 were issued to Messrs. Thomson and Bernstein. The Pimenton Notes are payable one year following the repayment of the OPIC loan if the price of gold trades above \$300 per ounce during the 90-day consecutive period preceding such repayment date. Otherwise, the balance is payable at the end of the first 90-day consecutive period following such repayment date in which the price of gold trades above \$300 per ounce. Interest on the Pimenton Notes is 5% per annum commencing January 1, 2000, and payable only at the end of any 90-day consecutive period in which the price of gold trades above \$300 per ounce.

The Pimenton property is also subject to a 5% net smelter royalty, which may increase to 6% based on an escalating scale in future gold prices.

The environmental liabilities to which the Pimenton mining operation is subjected are primarily tailings disposal and mine run-off waters. In addition, small amounts of mercury may be used under strictly controlled laboratory procedures in processing gold doré.

In October 2004 possible joint venture discussions were initiated on the Pimenton porphyry copper deposit. The outcome of these discussions is inconclusive at this time.

The Corporation received confirmation on June 30, 2003 from SERNAGEOMIN, the Chilean state mining and permitting authority, that Compañía Minera Pimenton did not require new permits in order to reactivate operations at Pimenton. The Corporation formally notified SERNAGEOMIN of its intention to reactivate operations at Pimenton. SERNAGEOMIN raised no objections, and no objections are expected to arise.

In April 1997, the expansion of the tailings deposits to a total of about 50,000 tonnes was approved by SERNAGEOMIN. This is being achieved by raising the existing dikes. That permit has served for restarting the operation and is expected to provide sufficient tailings capacity through June, 2007.

The long-range tailings disposal plan under consideration and proposed by Geotecnia Ltda., a Santiago based environmental engineering firm, is to divert the Quebrada Pimenton stream above the deposit area and construct a rock fill dam across the Quebrada at a point 100 meters downstream from the current tailings ponds. The dam would be approximately 200 meters long at the final crest (elevation 3,388) and would be approximately 24 meters high in the center. This embankment can be constructed in stages over a three to four year period and will hold an estimated 650,000 tonnes of tailings.

Design and permitting of this tailings deposit was approved by SERNAGEOMIN on December 17, 2004. Construction of this tailings dam is currently scheduled to begin in February, 2007.

#### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

Pimenton is accessed via the main international highway between Santiago and Mendoza, Argentina, to the Maintenes hydroelectric plant, which is located 12 km east of the nearest town, Los Andes. From this point, Pimenton is reached via 84 km of gravel road. The total road distance to Santiago is 175 km. Pimenton is located approximately 195 km from Ventanas, a custom copper smelter owned by Enami (the state-owned National Mining Company).

The climate in central Chile is classified as temperate Mediterranean, with rainfall in the 350 mm to 1,500 mm range in the winter months (April to September). Winter snow conditions at Pimenton can vary from mild to substantial on a year-to-year basis, which requires careful planning and snow removal equipment. The 1997 El Niño phenomenon in Chile created nearly 14 meters of snow around the Corporation's Pimenton mine, which resulted in damage to the camp and mill facilities. All mining equipment and electrical components of the plant were moved to a leased facility in Los Andes and remain under care and maintenance for future use.

Temperatures in the project area typically range from 0°C to 18°C in summer and from minus 10°C to 0°C in winter.

Chile's water code grants any mine owner the right to consumptive use of any water made in his or her mine workings. Underground adits at Pimenton have each encountered water flows of fourteen liters per second, which can be expected to increase as the workings extend in length and depth below surface. Process water and potable water are obtained on site from a year-round spring above the mine site, with rights up to 60 liters per second. The Pimenton Technical Report concludes that Pimenton has adequate water rights for mining and milling operations in order to restart operations as currently planned.

Mining personnel are generally available in the Los Andes area and are **transported** to the mine by bus or van. Additional personnel can be contracted from as far away as La Serena and Santiago.

Space for processing plants and mine facilities and tailings is limited to a small area in the upper Pimenton Quebrada. Electric power is generated on site by multiple diesel-powered generators.

Pimenton's camp and plant site are at 3,400 meters of elevation where vegetation is sparse, as is typical of that region of Chile.

### ***History***

Between 1980 and 1984, regional exploration of Pimenton was conducted by Compañía Minera Bernstein Y Thomson Ltda. ("BTX"), in partnership with subsidiaries of two international mining companies, which relinquished their interests to BTX in 1984. At the time, Dr. David Thomson, currently the EVP and Director of Exploration and a Director of the Corporation, was a partner of BTX. At that time, BTX optioned the claims now forming part of the Pimenton project to Newmont Mining Chile Ltda. ("Newmont"), which initiated geological mapping, geochemical sampling and scout drilling to detect epithermal gold targets. Adits were driven to evaluate narrow but high-grade quartz sulphide veins in the south of the property, but Newmont was primarily interested in bulk mining opportunities and ceded its interest to BTX in 1988. BTX then started a small labor-intensive, semi-mechanized operation producing 1,182 ounces of gold (5.58 ounces of gold per ton). Mount Isa Mines ("MIM") was then granted an option and it conducted a one-season program to investigate the porphyry copper potential of the area. The Corporation began developing the high-grade vein systems at Pimenton in February 1994, following the signing of a joint venture agreement with BTX, which entitled the Corporation to earn a 56% interest in the Property. The Corporation subsequently earned its 56% interest in Pimenton and entered into an agreement in November 1996 to acquire the remaining 44% interest from BTX.

### ***Geology***

The mine site is located on Chile's famous copper porphyry belt along with Codelco's El Teniente and Andina mines and Anglo-American's newly acquired Minera Disputada de Las Condes mine to the south, and Antofagasta PLC's Minera Los Pelambres to the north.

The Pimenton alteration zone can be geologically shown to correspond to the upper part of a typical porphyry copper system. A widespread system of late stage persistent steep, narrow northeasterly trending gold veins has been superimposed on the upper part of the porphyry system at Pimenton.

The property is characterized by a northwest trending quartz sericite ridge, peaking at an elevation of about 4,000 meters, that separates the Pimenton valley and the upper Rio Colorado River.

There is strong northwest trending faulting, including the Condor and Quanco fault zones to the west of the Pimenton valley, that define an area of highly altered monzonite with extensive stockwork near the faults.

Near the center of the alteration zone, primarily on the eastern side of the Pimenton valley, as referred to above, there are surface gold anomalies which could represent additional north-northeast trending veins. These anomalies are typically about 150 meters apart. The current mineral reserves are blocked on two veins in the Lucho/Leyton area which are northeast trending, steeply dipping quartz-sulfide veins which fit in a pattern of some 17 such vein systems inferred by surface geophysics and geochemical surveys.

The veins are typically near vertical, with ore-shoots up to 200 meters in length and about 0.5 meters wide on average. Mineral systems such as these typically have good vertical continuity.

In addition to these high-grade gold veins, there are moderate grade north-northwest trending veins typically flanked by clay or sericite alteration, as well as lower-grade pyrite magnetite veins in the margins of siliceous masses. It appears that there were multiple mineralizing events within a structurally complex setting, indicating significant resource potential.

### ***Exploration***

The activities that have been carried out during the course of the successive field programs carried out at Pimenton have included surface geological mapping, geochemical sampling, road trenching by bulldozer, diamond drilling, and underground adit development, with attendant geological mapping and detailed sampling.

Surface geological maps of the area are the result of work by geologists from COMINCO, Newmont, MIM and CM Pimenton. Work performed by CM Pimenton was conducted under the direction of Dr. Thomson. Early programs were carried out with helicopter access, and the support of trained mountaineers was required in some areas of hazardous access.

The geology described in the previous sections is the result of the accumulated evidence of these programs. Geochemical and geophysical exploration has confirmed the occurrence of high-grade gold veins in proximity of geochemical gold anomalies, and has led to development of the current estimates of mine recoverable reserves. Data of geochemical anomalies have been instrumental in focusing the development work at Pimenton to date, which has developed estimates of terrain reserves on the more accessible veins in the Lucho area of Pimenton. This validated the use of geochemistry and magnetic surveys in guiding future drift and crosscut development in search of additional veins and/or shear zones. The magnetic alignments identified have been interpreted as indicative of high-grade veins.

Geochemical sampling programs have consisted of the collection of – 80 mesh screened scree material from the steep flanks of the Pimenton valley, and the west flank of the adjacent valley to the northeast. Because of the nature of the terrain, samples were collected initially on contour traverses along the scree slopes parallel to the ridges. Only in the upper northeastern part of the Pimenton valley was it practical to run four parallel SE trending traverses. The overall density of geochemical sampling is therefore low in relation to the surface area of the prospect, and is especially low in the flank of the valley, parallel to Pimenton, in the northeast. Samples were analyzed in Geolab, Santiago by atomic absorption, after attack by bromide hydrobromic acid, for gold, and after aqua regia attack, for silver, copper and zinc. Values anomalous in gold (greater than 100 ppb) occur on both flanks of the central ridge on the project, and on the southern part of the southwestern ridge, with peak areas carrying 500 to 2,500 ppb gold. Anomalous copper values were also recorded. The area carrying anomalous gold values occupies an area roughly 2.5 x 1 km on the east flank of the Pimenton valley, and 1.5 x 0.5 km on the west flank.

The geochemical survey was conducted initially by COMINCO and later the geophysical survey was conducted under the direction of Dr. Thomson by contracted personnel operating a company-owned magnetometer. The survey was conducted by traversing the rugged terrain on approximately 25-meter contour intervals.

Work conducted at Pimenton by COMINCO, Newmont and MIM was conducted under the direction of competent geologists and in accordance with the standard industry practices followed at the time. Because the work conducted by COMINCO, Newmont, MIM and the Corporation was done over a number of years with each company doing a certain amount of reconfirming prior data, and based on a thorough review by Dr. Thomson of a series of geological reports and related geological information prepared by each of these companies, nothing has come to his attention which would indicate the technical data, such as geological sampling results and drill hole results assay, supplied in these reports was not accurate. However, due to the rugged terrain and measurement instruments available at the time of geochemical mapping and geochemical sampling, the precision of the exact sample location contained in the information provided by COMINCO, Newmont and MIM is subject to slight variation. This possible slight variation in exact location of the samples does not detract from the overall geological picture of Pimenton. None of this data was used by Mr. Selters in his calculation of mineral reserves and mineral resources at Pimenton in the Pimenton Technical Report, which are set out below under “Mineral Resource and Mineral Reserve Estimates”.

Geological work conducted by the Corporation at Pimenton under the direction of Dr. Thomson was conducted in accordance with industry practices and the Corporation has no reason to doubt its accuracy. See "Sampling and Analysis", below, for description of sampling and analysis procedures followed at Pimenton under Dr. Thomson's direction.

### ***Mineralization***

The high-grade gold/copper veins at Pimenton are the only economic mineralization discovered to date. In its early studies of the property, BTX recognized three vein types:

- (a) Pyrite/Chalcopyrite barite quartz veins. These range from narrow veinlets to massive sulphide veins individually of 50 centimetres. These veins carry very high gold values, trending North 30 E.
- (b) Pyrite with saccharoidal quartz veins. These are normally flanked by strong clay or sericite zones, and carry moderate gold values. These veins trend N30°W.
- (c) Pyrite magnetite veins. These occur in the margins of siliceous masses, are accompanied by gypsum in their margins, and generally carry gold values in the order of 0.3 to 1g/ t gold.

### Vein Descriptions

**LEYTON VEIN:** The Leyton vein is a Type A vein, with a known strike length of some 300 meters. It is predominantly a Pyrite/Chalcopyrite vein. To the south, Leyton lies in a Classic tuff forming ribbon veins with alteration extending as much as a meter from the vein. An example is the Leyton south on the 3,470 level. In the tuffs the alteration is predominantly argillic with some silicification and disseminated pyrite. To the north as Leyton enters the Porphyritic andesite or fine-grained tuffs, the vein becomes tighter with a pervasive propylitic alteration with little or no alteration of the wall rocks. Here the veins are predominantly massive sulphides with almost exclusively Pyrite/Chalcopyrite. The trend of these veins ranges from 0 to 35 degrees North East with N30E as the preferred direction. Some 45 meters north of the Angelica Fault, Leyton and Lucho join together. To the north of this joint, the vein has produced some of the highest consistent assays for gold and copper recorded in the mine. The combination of Lucho/Leyton is still in the face in the 3,430 level but not in any of the upper levels. The trend of Leyton varies from 0 to N30E dipping to the east at 75 degrees.

**LUCHO VEIN:** The Lucho vein is a Type A vein, which has a strike length of some 250 meters. It is a predominantly Pyrite/Chalcopyrite vein. Lucho behaves in much the same way as the Leyton vein. The only real difference is the lower copper values of Lucho compared to Leyton, when it lies in the Classic tuffs. On the 3,430 level Lucho has only minor displacement to the east at the Angelica Fault. However, on the upper levels Lucho either fails to cross Angelica or dies out after 30 meters. The trend of Lucho is N30E dipping to the east at 75 degrees.

**MICHELLE VEIN:** Michelle has a strike length of over 300 meters. The Angelica fault marks the divider between the Classic tuffs to the south and the intrusive to the north. To the south of Angelica the vein is up to 1.2 meters wide with either intense stockworks or strong ribbon veining. Michelle South differs from Lucho South in that copper values often exceed 3% copper. To the north, the vein is a tight 10 to 40 cm wide massive sulphide vein with little or no alteration apart from the pervasive propylitic alteration. The trend of Michelle is N30E dipping from 65 to 75 degrees to the south.

**KATHY VEIN:** Kathy is an eastern split of the Lucho/Leyton vein. It has all the characteristics of the Lucho vein and the vein is currently exposed in the northeast face. It has a strike length of 50 meters. The trend of Kathy is N35E, the dip ranges from 75 to 85 degrees east.

**MANTEROLA VEIN:** Manterola lies in classic tuff breccias and tourmaline breccias. It has a strike length of 40 meters before turning west where the grades become more erratic. There are two parallel high-grade



Pyrite/Chalcopyrite veins that seldom exceed a 10-cm width. These veins are roughly one meter apart. Parallel and in between these veins run 1 mm fractures that carry good gold values as well.

### ***Sampling and Analysis***

#### Past Sample Methodology

Vein sampling during drift advance was conducted as follows. Channel samples from the mine were taken every 1.5 meters with samples to either side of the zone of interest as well as the vein. These are coded A, B, C, etc., and every effort was made to put the vein in the center of the “B” channel sample. Samples averaged 8 kilograms per bag with one bag per sample. Samples were bagged, identified and sealed in the mine. They were then sent directly to Santiago for analysis, as soon as possible, often the same day.

The following flowchart describing the individual steps in the sampling process used to collect assay samples for the reserve calculation is set out below.

#### *Sampling Flow Chart*

- 1) Vein was first identified on the roof of tunnel by geologist.
- 2) The vein sample was marked along with at least one sample of sterile material adjacent to the vein. When the vein was not in the wall two adjacent sterile samples were marked, one on each side of the vein. Samples were marked every 1.5 m along the length of vein (i.e., tunnel) by red spray paint.
- 3) Immediately after samples were marked, an experienced sampler with two helpers took rock chip evenly through the mark lines. The actual sample was taken by mall hammer and chisel, and collected by hand-held trap.
- 4) The experienced sampler screened each sample to ensure a representative sample.
- 5) Sample was then bagged in thick plastic bags, ticketed and stapled closed.
- 6) Samples were then moved outside the mine by scoop and taken by truck to the camp.
- 7) The samples were stored in an uncovered holding pen until a truck was available to go to Santiago.
- 8) Samples were normally taken to Acme Labs in Santiago by a staff geologist or head sampler.
- 9) Samples were assayed in Acme Labs using fire assay from 30 g sample for gold and atomic absorption for copper. Turnover for results was approximately two days. Repeat assays were taken on every fifth sample.

This procedure was observed by Mr. Robert Lyall of Behre Dolbear & Company, Ltd. and in his report was classified as “standard procedure for narrow vein gold mining.” The Pimenton Technical Report examines the approach used by Mr. Lyall and concludes that sample quality was satisfactory.

#### Past Sample Preparation, Analyses and Security

As noted above, samples of approximately 8 kg were taken at the mine and sealed in plastic bags.

The handling of samples from the mine to the off-site laboratory was done by experienced employees. Officers and directors of the Corporation were involved in general direction of the work.

Sample preparation, assaying and analytical procedures were performed by ACME Laboratories in Santiago, a laboratory with a good reputation in the Chilean mining and exploration business. The laboratory is controlled by ACME Laboratories of Vancouver, which runs periodic checks on the duplicate samples at their Vancouver Laboratories (which is certified in Canada). ACME Santiago is in the process of obtaining ISO 9000 Certification.

Once at ACME, samples were oven dried, if necessary, at no more than 65 degrees. Primary crushing was to ¼ inch followed by roll crushing to -10 mesh. The sampling was riffle split to 500 g then pulverized to 90% under -150 mesh. Assays have a second split taken every fifth sample, which is used for check assaying.

30 g of sample were then fire assayed and read on AAS. Every sample with a gold grade greater than 3.00 g/t is repeated and finished gravimetrically.

ACME routinely ran a check analysis on every fifth sample. During the preparation of the Scoping Study, a statistical analysis of these check assays showed the following variance:

Samples grading 100 to 300 grams/gold per tonne  
16 samples with a variance of 1.600 grams

Samples grading 50 to 100 grams/gold per tonne  
35 samples with a variance of 0.400 grams

Mr. Selters, stated in the Pimenton Technical Report that in his opinion the sample preparation procedures at Acme Laboratories were adequate and appropriate for the time.

#### Current Sampling and Analysis Procedure

Before restarting operations at Pimenton in July 2004, Acme Laboratories, S.A. Santiago, Chile was contracted to construct and operate an independent assay laboratory at the Pimenton mine site. All assaying at Pimenton is conducted by Acme with periodic check samples sent to Acme's laboratory in Santiago.

Vein sampling during stope development and drift advance is conducted routinely by specialized samplers under supervision of the geology department. Channel samples are taken every 1.5 meters along a vein structure with samples to either side of the zone of interest as well as the vein. These are coded A, B, C, with the higher-grade portion of the vein in the center of the "B" channel sample. Samples are bagged, identified and sealed in the mine. They are then sent directly to the on site ACME Laboratory for preparation and analysis by fire assay. Assay results are normally available by the following day.

#### ***Drilling***

Early drilling programs by Newmont and MIM focused on evaluating the potential for large, bulk mineable ore bodies. Most of those drill holes are not relevant to the current narrow vein (resource) evaluation.

Following the drilling on veins in the Lucho area on four levels down to the 3430 level, Minera Pimenton executed an underground drilling program, which indicated the presence of high-grade gold ore on several vein projections down to elevation 3,180, as shown in the following table.

The assaying of the drill hole intercepts shown below was conducted by Acme Laboratories in Santiago following the procedures described above.

<b>Drill Hole</b>	<b>Vein</b>	<b>Width m.</b>	<b>Gold g/t</b>	<b>Copper %</b>	<b>Elevation</b>
TDDH – 2	Lucho	0.21	21.3	7.05	3,180
	Manterola	0.35	10.4	1.6	3,250
TDDH – 3	Michelle	0.36	145.5		3,270
TDDH – 4	Lucho	0.46	50.6	2.3	3,300
TDDH – 4	Leyton	0.15	22.4		3,360
TDDH – 4	Nicole	0.90	17.3	2.3	3,405
TDDH – 7	Lucho (including)	2.82 (0.5)	15.5 (76.6)	1.2 (5.81)	3,317
DDHI – 17	Lucho	0.41	15.0	1.1	3,376
DDHI – 18	Lucho	0.16	12.0	4.4	3,325

Figures 18 and 19 found at section 26 of the Pimenton Technical Report show the position of some of these intercepts on sections giving possible projections of veins in the Lucho area. Figure 12 shows the position of some of the drill intersections on the Lucho vein, down to elevation 3,180, in relation to the levels and prior work on the Lucho (Leyton) vein from 3,430 to 3,560.

#### ***Security of Samples***

The handling of samples from the Pimenton mine to the off-site laboratory at ACME Laboratories in Santiago was done by experienced employees of the Corporation under the general direction of officers and directors. Sample preparation, assaying, and analytical procedures were performed by ACME Santiago, which is controlled by AMCE Laboratories in Vancouver, which, in turn, runs periodic checks on duplicate samples at their Vancouver Laboratories. The Pimenton Technical Report concludes that the sample preparation procedures at ACME Laboratories were adequate and appropriate for the time.

#### **Current Procedure**

The Acme Laboratories, S.A. facility at Pimenton is located in a steel- framed building separate and apart from camp, plant and other structures at the Pimenton mine site. When not occupied by Acme laboratory staff the building is securely locked. Samples are delivered by the geology personnel to the laboratory in sample bags that are marked only with a tagged number. The location is noted on a second portion of the tag, which is sent to the geologic draftsman to post the location in the sample database. Only authorized ACME personnel are allowed in the laboratory area. All other personnel must receive special clearance to visit the laboratory.

#### ***Mineral Resource and Mineral Reserve Estimates at December 31, 2004***

Pimenton is a high-grade underground gold/copper mine, open on four levels, with more than 4,000 meters of horizontal adits drifts, and crosscuts. In addition, some 11,000 meters of diamond drilling has been conducted on Pimenton.

As of December 31, 2004, Proven and Probable Mineral Reserves (using a cut-off grade of 11 g/t Gold equivalent) totaled 58,500 tonnes, calculated in compliance with NI 43-101. The average mining grade of this is estimated to be 15.2 grams of gold per tonne and 1.31% copper, net of adjustment for mining dilution.

<u>Mineral Reserves</u>	<u>Tonnes</u>	<u>Gold g/t</u>	<u>Copper %</u>
Proven Mineral Reserves	16,112	15.33	1.32
Probable Mineral Reserves	<u>42,471</u>	<u>15.19</u>	<u>1.31</u>
Total Mineral Reserve	58,583	15.2	1.3

***Mineral Resource and Mineral Reserve Estimates at December 31, 2005***

As of June 9, 2005, the Pimenton mine operations were shut down due to severe weather conditions which continued during the remainder of the Chilean winter season, Due to the inaccessibility of the mine portal entrances through to December 29, 2005 damage to electrical air ventilation equipment at the main portal entrance it has not been possible to have a qualified person in accordance with the Canadian Securities Administrator's National Instrument 43-101-*Standard of Disclosure for Mineral Projects* ("43-101") visit the mine as of the date of filing this Annual Information Form to confirm mineral resources and mineral reserve estimates at September 30, 2005. Once the damaged equipment is replaced an independent qualified person will be engaged to confirm the mineral reserve and resource estimates at Pimenton.

As of June 1, 2005, Proven and Probable Mineral Reserves (using a cut-off grade of 11 g/T (gold equivalent) totaled 48,072 tonnes at June 11, 2005, based on records maintained by the Corporation. The average mining grade is estimated to be 14.44 grams of gold per tonne and 1.3% copper, net of adjustment for mining dilution.

<u>Unaudited Reserves June 2005</u>	<u>Tonnes</u>	<u>Gold/g/t</u>	<u>Copper %</u>
Proven Mineral Reserves	13,034	14.44	1.26
Probable Mineral Reserves	<u>35,038</u>	<u>14.44</u>	<u>1.27</u>
Total Mineral Reserve	48,072	14.44	1.3

Due to current conditions at the mine, the June 2005 reserve estimates could not be audited.

The mine recoverable reserves are based on prior channel sampling of veins at 1.5 meter intervals exposed in 2,260 meters of drifting on four levels spaced at 40 meters vertically (elevations 3,560, 3,510, 3,470 3,430). This information has been supplemented with sampling of veins in sublevels, raises and stopes where applicable.

The information (sample grades and widths) has been organized with the same block system as used in the original Pimenton Technical Report, with the mining widths increased from 45 centimeters to 70 centimeters to reflect the change to an open-stope stull mining system. This change to the mining system was introduced during the first months of operations when "cut-and-fill" mining with resuing was proving difficult to implement under the rock conditions. Productivity was low and the desired mining widths were not being achieved. The change sought to improve mining productivity, taking more planned dilution, which could be handled with excess mill capacity.

The reserve tonnes in any given block have increased due to the increase in planned width. The near vertical veins volumes are now calculated at a minimum mining width of 70 centimeters per segmented data from the rock-chip channels cut at 1.5 meter spacing in the back (or face) of the drift. The width and grade from each channel is then composited in vertical sections on 10-meter centers. As in the 2003 estimate, Proven Reserves are derived from Measured Resources by applying dilution and mining recovery to Measured Resource volumes projected on vein structure for 5 meters upwards and 5 meters downwards from the sampled drift interval. Probable Reserves are derived from Indicated Resources by applying dilution and mining recovery to Indicated Resource volumes projected on vein structure from 5 to 20 meters above and below the sampled interval.

In addition to the minimum planned width of 70 centimeters, the reserve calculation incorporates further dilution of 10 centimeters. Mining recovery has been adjusted from 98% to 95%, to allow for the leaving of sill pillars beneath some levels.

### **Inferred Mineral Resource at December 31, 2005**

The inferred mineral resources are reported separately and are summarized as follows:

<b><u>Mineral Resources (additional)</u></b>	<b><u>Tonnes</u></b>	<b><u>Gold gpt</u></b>	<b><u>Copper %</u></b>
Inferred Class A	28,700	15.31	1.33
Inferred Class B	<u>171,020</u>	<u>19.37</u>	<u>1.61</u>
	199,721	18.8	1.6

These Inferred Mineral Resources are distinct from the Reserve categories reported above. The Class A Inferred Resources are projections from 20 to 40 meters vertically above or below the established reserve blocks as defined by channel sampling on existing level(s). This material was previously classified as “possible” ore reserves under the previous mining disclosure NP-2A guidelines. This resource (Inferred Class A) is assigned a fairly high probability of being converted to reserves during the first months of mine development when the new 3,390 level drifting is planned on the Lucho, Leyton and Michelle vein structures.

The Class B Inferred Resources remain unchanged from 2004. They were previously estimated by projection for existing Lucho area ore zones below the Class A inferred blocks (elevation 3,390) down to an elevation of 3,185 meters where a diamond drill intersection indicates the continuation of high-grade ore to that depth. This estimate continues to be valid.

The Reserves and Inferred Mineral Resources are located in the Lucho/Leyton vein systems at Pimenton and do not include any estimates from the recently discovered Carmela vein, which lies 800 meters to the southeast, and nineteen identified geochemical anomalies which lie to the northwest of the Lucho/Leyton, which could host additional gold veins. Additionally, no credit has been given to the Maria Elena sector gold veins, on which four levels of adits have been driven totaling approximately 900 meters. Maria Elena lies 1,200 meters to the south of Lucho/Leyton.

John J. Selters, Professional Engineer, and Qualified Person, visited the Pimenton Mine on February 12, 2005 and reviewed the Resource and Reserve estimation methodology. His report, in final preparation, concludes that the 2005 Pimenton Mineral Reserve estimate uses appropriate methods and data for projecting tonnes and grades from sampling of the mining stopes, sublevels, and raises.

### ***Operations***

In February 1997, the Corporation completed installation of a 120 tpd plant operation at Pimenton, which with modest modification could be increased to 140 tpd. This plant replaced an earlier installed 30 tpd pilot plant operation used to test the metallurgy and processing of the Pimenton ore. Due to the unusually heavy snow conditions during the Chilean winter season of 1997 (June to November), the plant and operations at Pimenton were shut down. Sales of gold doré and copper/gold concentrate processed from development ore exceeded \$1,000,000 during the two-year period prior to termination of plant operations. By early 1998, gold prices had fallen substantially and the operations at Pimenton were placed on “care and maintenance.”

In July 1997, the Corporation initiated a detailed scoping study on the Lucho system of the Pimenton mine which demonstrated the potential for a 400 tpd plant operation which would produce in excess of 50,000 oz of gold per year at an estimated cash cost per ounce of \$211.00. The scoping study was completed in December 1997 just as gold prices began to decline.

The scoping study was prepared by the Corporation under the direction of Behre Dolbear & Company Ltd.,

Toronto, Canada (“BDC”). The geological description, assaying and sampling procedures and reserve and resource estimates contained in the report were prepared by Mr. Lyall, a consultant of BDC and formerly head of exploration, Latin America, for Anglo-American. While the Corporation believes the scoping study and recommendation contained therein were technically sound, the study envisioned a significantly higher capital cost compared to the technical report because the study envisioned a different and less-selective type mining method. The scoping study reserve estimates were prepared by BDC in accordance with then industry standards that do not qualify under National Instrument 43-101.

In 1998, new detailed geochemical soil sampling and magnetometer traverses showed that the possibilities are excellent for additional gold bearing veins outside the Lucho area at Pimenton.

In May 1999, SAGC engaged Mr. Selters to evaluate the possibility of placing the Corporation’s Pimenton gold mine into production utilizing the existing mill and mining equipment.

In 2002, a limited exploration program at Pimenton, directed by Dr. Thomson, identified the Carmela vein, which averages 50 centimeters in width, assaying 21.3 grams of gold per tonne, 82.3 grams of silver per tonne and 4.82% copper per tonne over a distance of 13.5 meters with cut assays taken every 1.5 meters. These results are preliminary in nature and not conclusive of the likelihood of the occurrence of a mineral deposit. The sampling was conducted by taking cut samples every 1.5 meters over a distance of 13.5 meters. The sampling was conducted under the director of Dr. Thomson. Each 1.5 meter cut sample was split, bagged separately and tagged and placed in polyurethane sample bags for transport by pickup truck directly to Acme Laboratories, Santiago, Chile. Fire assays on the samples were conducted by Acme Laboratories, Santiago, which is in the process of obtaining ISO 9000 certification and is controlled by Acme Laboratories, Vancouver, BC. The Carmela vein is located 800 meters to the southeast of the Lucho/Leyton veins. This exploration information was prepared by Dr. Thomson. Due to time constraints no further exploration was conducted on the Carmela vein during 2004.

As discussed above under “General Development of the Business”, the Corporation completed on January 30, 2004 the loan documentation in respect of a \$2,800,000 loan commitment from OPIC and received initial funding of \$1,200,000 in January 2004 and the second funding in the amount of \$1,600,000 in May, 2004.

Reconstruction of the main camp and infrastructure facilities at Pimenton was substantially completed in April, 2004. The plant building was completely replaced and installation of new and/or refurbished mill equipment was completed in May, 2004. Mine development operations were initiated in January, 2004 and the mine began production of ore in April, 2004.

Effective July 1, 2004 the Pimenton gold mine was declared to be in “commercial production” at an initial plant production rate of 60 metric tons of ore per day. Since initial plant production was initiated the plant has suffered a number of plant start up problems including the necessity to install a secondary jaw crusher in order to sustain a more even feed of minus 3/8” material to the cone crusher in the plant’s crushing circuit. It also became evident that the cone crusher foundation was not built to original (proper) specifications and needed to be substantially reinforced. Certain conveyor belts also needed realignment. Additional items of plant improvements have also been ongoing. These repairs resulted in 45 days of lost plant operation during October, November and December 2004. The plant improvements that have been made, however, have resulted in increasing its daily production capacity to 200 metric tons, which was originally not planned to be accomplished until early 2006. Only modifications to the fine ore bin and flotation cells are required to reach 300 tpd.

In September 2004 the decision was made to change the mining method at Pimenton from “cut and fill with resuing” to the “stull mining” method of mining. This change in mining method was approved by SERNAGEOMIN, the Chilean state mining and permitting authority in October 2004. This change in mining method was made due to the fact that the gold ore veins at Pimenton are very friable which resulted in overbreaking and loss of gold fines during blasting of the ore. This resulted in reducing the average head grade of gold into the mill to 10.13 grams per metric ton compared to the originally projected 17.92 grams.

The stull mining method of mining has increased mining width to 0.80 meter compared to the originally planned 0.55 meter using the cut and fill with resuing method of mining and will reduce average projected head grade of ore to 15.3 grams of gold per metric ton. This reduction is not expected to reduce gold ounces produced due to the recently increased daily plant production capacity.

The decision was also taken not to restart the development of the 3390 level adit, which was initially started in 1997. Subsequent analysis of restarting this adit level below the 3430 level adit which is now the active level at the Lucho/Leyton gold vein systems determined that future tailing ponds expansion would be restricted. The decision was taken to drive a 550 meter exploration/development cross-cut to intercept the Lucho/Leyton level. This new level called Esperanza starts at the 3375 level and will come in under Michelle, Leyton and Lucho at the 3370 level. This level has been driven 270 meters to date.

On June 9<sup>th</sup> a major snowstorm system moved through the Central Andes causing extensive avalanche activity throughout the region resulting in the closure or significant reduction in operations of several other mines in the area, the closure for nearly two weeks of the Pass de Libertadores, the principal highway from Chile to Argentina and a one week delay in the opening of a major ski resort in the area. The Jet Stream, which usually drops south of the area, shifted north over the area in which Pimenton is located. The storm began at the mine on the morning of June 9<sup>th</sup> and lasted for ten days, dropping nearly four meters (14 feet) of snow before the storm died out on the morning of the 19<sup>th</sup>. There were several unusual weather anomalies that occurred before and during the storm which caused extensive avalanche activity. First, before the storm, the weather was unseasonably mild, the daily thawing and nightly freezing of the existing snow pack formed an ice lens on the surface. Second, over three meters of unusually light snow fell at the beginning of the storm, 312 cm with only 187 mm of water in the snow (6% water content). Third, at the end of the storm 81 cm of heavy snow fell, with 158 mm of water (20% water content). The combination and, more importantly, the order of these three weather factors caused severe avalanche conditions at the Pimenton mine and on a part of the 80 kilometer road to the mine site.

During the period of June 9<sup>th</sup> to June 19<sup>th</sup>, the main portal entrance at the Pimenton Mine experienced avalanche damage to electric equipment at the portal entrance which resulted in the paralyzation of mine operations. While several attempts were made to regain access to the portal entrance to repair the damaged equipment during the first seven days of the ten day storm period, the extremely high moisture content of snow which fell on June 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> caused further extreme avalanche conditions at which time the avalanche expert at the mine ordered a stoppage of work at the mine portal entrance due to continued avalanche activity in the area.

On June 19<sup>th</sup>, Compañía Minera Pimenton (“CMP”) notified its insurance agent, Willis Insurance Services S.A. (“Willis”) and Cia de Seguros Generales Cruz del Sur (“Cruz del Sur”), the company with whom CMP’s insurance is placed, that electrical equipment at the mine portal entrance had been damaged thereby causing a paralyzation of operations at the Pimenton mine.

Due to the continued threat of further avalanche activity at the mine portal entrance, management of CMP took the decision to focus all its efforts on clearing the 80 kilometer road to the mine. This snow clearing operation was further hampered by several major avalanches which occurred several days after the primary snowstorm event both at the base of the road leading to the Pimenton mine and near the base of the La Raspa section of the road and adversely impacted the road clearing operations.

On June 26<sup>th</sup> the road into Pimenton was marginally opened. Due to another major snowstorm event which was forecasted to begin on the evening of June 28<sup>th</sup>, 2005, the decision was made to evacuate all employees from the mine site, which was accomplished on June 26th. The snowstorm forecasted on June 28<sup>th</sup> did occur dropping an additional 2 to 4 meters of snow on the road into Pimenton and at the mine site thereby once again closing the road.

CMP notified Willis and Cruz del Sur that the mine had been shut down and all personnel evacuated. Following this notification meetings were held, with Willis and Cruz del Sur, at which time CMP explained the importance of reentering the mine site in order to have CMP’s avalanche expert and the “avalancher

snow cannon” crew at the mine site to enable continued control of avalanche activity. CMP pointed out that this crew had been successful in controlling avalanche activity near the Pimenton camp, plant and laboratory facilities, none of which experienced avalanche damage. Following these meetings, CMP was asked by Cruz del Sur to submit a budget for the cost of re-accessing the mine and to clear the portal entrance to further assess the damage to equipment at the mine portal entrance.

CMP submitted a budget of US \$183,000 and Cruz del Sur subsequently advanced US \$70,000. During these discussions CMP was also informed by Cruz del Sur that it had selected an insurance adjusting firm, SFC Adjustadores, S.A., Santiago, Chile, that would have its representative accompany CMP’s road clearing crew and make an assessment of the damage at the mine portal entrance. Re-opening of the road into Pimenton started on July 26, 2005, and the mine was accessed on August 12, 2005, and sufficient snow and avalanche debris was removed to assess the damaged equipment on August 18, 2005.

The initial advance of US \$70,000 from Cruz del Sur was totally expended on August 12, 2005, at which time CMP requested the balance of its original budget of US \$183,000. Cruz del Sur advanced and additional US \$50,000, or a total of \$120,000, which was \$63,000 less than CMP’s originally requested US \$183,000.

At the time of making the US \$50,000 advance the insurance adjuster firm informed CMP that its representative, whom CMP was initially led to believe was qualified to make an assessment of the damaged equipment at the mine portal entrance, was not qualified and that one of the adjusting firm’s principals would have to make the assessment of the damages.

Due to another impending snowstorm which was forecasted to arrive on August 24, 2005, the decision was made to helicopter the adjuster, accompanied by an electrical engineer who was engaged by CMP to provide his independent estimate of damages, into the mine. This was done on Saturday, August 20, 2005, at CMP’s expense.

CMP again requested additional funding under its original budget submitted to Cruz del Sur. This request was refused. Due to CMP’s financial condition and without the additional advance from Cruz del Sur, the decision was made to once again exit all personnel from the mine due to the forecasted heavy snowfall and lack of funding to support a crew at the mine.

Under Chilean insurance law, the adjuster has ten days to prepare and submit its “Draft Preliminary Report” of its assessment of damages to the insurance company and to the insured.

The draft preliminary report dated August 26, 2005, issued by the adjustor can be summarized as follows:

- 1.) Damage to equipment at the mine at the mine portal and the cost to repair or replace such equipment was estimated to be approximately US \$200,000. From this amount the adjuster deducted the US \$120,000 advance made by Cruz del Sur to CMP and the \$40,500 deductible contained in CMP’s policy.
- 2.) In addressing the business interruption clause which is contained in CMP’s insurance policy with Cruz del Sur, the adjustor has taken the position that CMP’s insurance policy contains a clause which states that business interruption caused by snow blockage of the road into the Pimenton mine and/or roads at the mine site is not a risk covered under CMP’s insurance policy. Because snow blockage and access to the mine due to snow blockage is not covered under CMP’s policy the adjustor has taken the position that business interruption insurance coverage should only be paid once access to the damage at the mine portal entrance has been accomplished and actual repairs to the damaged equipment have been initiated.

CMP, its legal counsel, Cariola Peres Cotapos, and its advisors believe that the business interruption event took place on June 9<sup>th</sup>, 2005, when the first avalanche at Pimenton’s main portal entrance occurred and



damaged electrical equipment at the mine portal entrance (which is documented by pictures). This avalanche caused the shutdown of mining operations at that time, which event is covered under CMP's policy.

The fact that the road to the Pimenton mine was blocked by snow has no relationship to the fact that the avalanche event did occur causing damage to equipment needed to conduct mining operations. Damage to equipment caused by avalanches and a resultant paralyzation of operations is clearly, in the opinion of management and its advisers, covered under the business interruption clauses contained in CMP's insurance policy.

CMP rejected the adjustors "Draft Preliminary Report" in a meeting with the adjustor on September 9, 2005, followed by a formal letter to the adjustor and Cruz del Sur dated September 9, 2005.

Under Chilean insurance law, the adjustor is allowed 90 days to prepare a Formal Preliminary Report taking into account CMP's original rejection to the Draft Preliminary Report as soon as possible. The adjustor completed the Formal Preliminary Report dated September 24, 2005. This report was in substance no different than the first Draft report.

Under Chilean insurance law, once the preliminary report has been issued the insured has the right to request arbitration if it disagrees with the adjustor's report and if its insurance policy contains an arbitration clause. CMP's policy contains an arbitration clause which CMP has exercised.

CMP's counsel and Cruz del Sur's counsel have mutually agreed to appoint Ricardo Peralta as the arbitrator. The arbitration procedure in Chile is a formal procedure with a schedule of dates within each party to the arbitration must comply in providing information, testimony and/or expert witnesses as requested by the arbitrator. The arbitrator may extend the time period within the schedule of dates if requested by either party to the arbitration. CMP and Cruz del Sur have each indicated a desire to proceed with the arbitration as rapidly as possible. If no agreed settlement is reached during the arbitration process, but the time schedules are adhered to, the arbitrator would give his final determination on or about June 26, 2007. The first of these events is for the insured (CMP) and Cruz del Sur to submit background information to support each party's claim or counterclaim as the case may be. This information was submitted on December 16, 2005.

CMP does not significantly dispute the Cruz del Sur's adjustor's gross dollar assessment of the damage to the equipment at the Pimenton mine's portal entrance. Therefore, Cruz and CMP have agreed that the arbitrator's task is to determine the date on which the business interruption occurred at Pimenton and the period during which the business interruption occurred. The arbitrator will also review the specific claims which CMP has included in its gross business interruption claim, which amounts to US \$3,053,000. This amount covers the total four month business interruption period from June 9<sup>th</sup> to October 9<sup>th</sup>, 2005, which is the period (four months) covered by the business interruption clause contained in its policy with Cruz del Sur unless a subsequent event occurred in which case the business interruption would extend for up to a four month period following the subsequent event. The maximum payout for business interruption coverage under CMP's policy with Cruz de Sur is US \$4,700,000.

### **Pimenton, Porphyry Copper**

Late in the Chilean summer season of May 2003, Compañía Minera Pimenton geologists identified a tourmaline breccia pipe outcrop directly located approximately three km northwest of the Pimenton mine and plant location. The discovery of the tourmaline breccia pipe opens up the possibility of bulk tonnage copper with molybdenum credits at Pimenton. Due to the oncoming winter weather conditions, limited exploration was conducted and work on a partially constructed road into the prospect area was placed on hold.

In January 2004 the road into the project area was completed and work on a drill platform on the northwest side of the breccia pipe outcrop was initiated. Contract negotiations with Quatec Geofisica Limitada, a wholly owned subsidiary of Quantec Geoscience, Toronto, Canada, were also finalized. Quantec Geofisica was engaged to conduct and Induced Polarization, Resistivity, Self Potential and Magnetic surveys covering the accessible part of the valleys in the Pimenton and Guebrada Hondo valleys within the overall Pimenton alteration zone. This survey was initiated on February 5, 2004.

Quantec Geosciences ran six induced polarization lines totaling 15.9 kilometers. Four were in the Hondo Valley and two in the Pimenton Valley. Quantec's inverse chargeability sections derived from the field data showed anomalies with pronounced horizontal components due to the beddings of the volcanics and sediments influencing the distribution of sulphides. The sections showed good chargeability anomalies extending below the limit of the estimated 300 meter depth penetration of the induced polarization method used. These deeper extending anomalies may correlate with possible centers of bulk tonnage mineralization. There are five of these anomalies with minimum lengths varying from 600 to 1,200 meters. Four showed a correlation between the induced polarization lines that are 200 meters apart indicating that their minimum width is 200 meters. Geochemical soil sampling coverage for copper and molybdenum is not complete at Pimenton, but there is a more than suggestive correlation of the geochemical anomalies with those of induced polarization apparently going to depth. More detailed induced polarization work is needed to check the lateral extensions of the anomalies as well as in depth.

The extensive magnetometer survey identified two previously unknown strong north south breaks with possible extensions of several kilometers. Surface prospecting has found patchy gold bearing mineralization in siliceous tourmaline breccia associated with one break called the Cascade structure over widths that reach several meters and a possible length of near 2 km. The other magnetically indicated break appears to have been cut by diamond drill Hole N° 2 with two close together 10 meter intercepts of silicified tourmaline breccia and disseminated pyrite and magnetite.

In addition, the Quantec magnetic survey, clearly brought out north westerly and north easterly faulting as well as areas of marked lows and highs which could become meaningful in the future as the Corporation's data base expands during next years exploration season.

In late February 2004 Connors S.A. was contracted to conduct a diamond drill program. This drill program was initiated in March 2004.

A total of 884 meters of diamond drilling in two holes drilled at 45° (Holes N°1 and N°3) sited to check below the surface showing at the base of the breccia pipe outcrop, encountered favorably altered rocks carrying tourmaline with trace chalcopyrite and chalcocite. The drill intercepts of the weakly mineralized sections were 300 to 500 meters below the surface copper showings. Due to ice cemented talus, it was not possible to construct road access to favorable drill sites at the outcropping breccia pipe that would have reduced the vertical distance of drill holes N° 1 and N° 3 below the surface copper showings.

Two other diamond drill holes amounting to 883 meters were also drilled. Hole N° 2, drilled 391 meters at 45° 500 meters west northwest of Holes N° 1 and N° 3, tested a tourmaline breccia with remnant oxidized pyrite and some trace chalcopyrite selectively concentrated in tuff interbedded with unaffected shales. Hole N° 4, located 900 meters south west of Hole N° 2 was a vertical 492 meter hole put down to test Induced Polarization data and confirmed closely the predicted sulphide intercepts consisting of disseminated pyrite with patches of trace chalcopyrite. The alteration in this hole was stronger than Hole N° 2, and was 350 meters lower in elevation. In general, the four holes amounting to 1,767 meters proved the wide extent of the altered tourmaline breccias with disseminated pyrite and trace copper minerals.

Results of the geological, geochemical and geophysical information obtained during 2003-2004 exploration season at Pimenton are compatible with the presence of buried porphyry copper mineralizations. This assessment has also been confirmed by a major internationally recognized mining company which made two field trips to the Hondo Valley, extensively reviewed some 11,000 meters of drill core from previously conducted drill programs primarily oriented to gold exploration at Pimenton and was given access to certain

results of the geological, geochemical and geophysical information obtained from the exploration program.

Dr. David R.S. Thomson, Executive Vice President and Director of Exploration, with more than forty years of exploration and development experience in Chile and Peru, has reviewed the report summarized above.

During the 2004-2005 exploration season work consisted of re-mapping by the corporation of a part of the diamond drill holes put down by Newmont Mining Corporation between 1987 and 1990 and further re-examination of geological information obtained during the 2003-2004 field season, which identified within the overall greater Pimenton Alteration Zone two large areas which appear to indicate the upper expression of deeper seated porphyry copper molybdenum mineralization. These areas are identified as Pimenton Central and Cerro Pimenton. In addition a mobil metal ion (MMI) geochemical sampling program was conducted on a part of the prospect and is discussed below.

Pimenton Central, the larger of the two areas, and starting 800 meters north of the camp, extends at NNW along a fault zone for over 2,500 meters passing from an elevation of 3375 meters at its southern end to 4000 meters at its northern. Very strong vertical, at times closely spaced, NE faulting is much in evidence throughout its length.

At Pimenton Central there is an 800 meter thick sequence of sericitized and silicified crystalline and rhyolite tuffs striking NW and dipping at 80 degrees to the NE. The tuffs have been intruded by three small stocks of biotite porphyry with alteration varying from potassic at the northern end to silicic phyllic at the southern over a distance of 1,000 meters coinciding with extensive stockworking. Two diamond drill holes at the northern end and surface sampling, including trenching, found disseminated and veinlet pyrite and chalcopyrite with averages in the range of 0.18 to 0.20 % copper. Some molybdenite can be noted in the drill core. Talus geochemical soil sampling carried out by COMINCO in 1982, and by the Corporation in 1998, found strong copper molybdenum and gold anomalies within the zone of the intrusive stocks extending over an area exceeding a square kilometer.

Four hundred meters SSE of the southern most altered intrusive sericitized and silicified tuffs with less altered biotite porphyry pass into the 200 meters wide NE trending zone of narrow high grade gold veins with copper and some gold bearing stockworks. The NE breaking referred to above hosts a widespread series of these veins, which have a known depth range of 400 meters and an indicated possible range exceeding 800 meters. They occur scattered over a 3 by 3 kilometer area. These veins are late stage in the porphyry system and in effect form an umbrella like zone overlying the porphyry mineralization. This is the location of the Corporation's Pimenton gold mining operations.

Six hundred meters to the SSE of the Pimenton vein mine area, the Esperanza adit is being driven towards the NW on the 3375 level to come under the 3430 level in the mine area. The first 180 meters of this adit included 84 meters of sericitized tuffs assaying 0.63 g/t gold and 720 ppm copper and a further 26 meters of chloritized biotite porphyry with 0.26 g/t gold and 426 ppm copper. These values, were determined by fire assays of channel cut samples sent to ACME Laboratories S.A. Santiago, Chile and suggest they are peripheral to wider spread mineralization probably at depth.

The Cerro Pimenton altered area starts 800 meters south of Pimenton's mine camp. Here it is within the same NNW fault zone as Pimenton Central. It may extend to the NW for 2,000 meters. Elevation varies from 3100 meters at the SW end to 3900 meters to the NW. The same 800 meter thick sequence of tuffs occurring in the Pimenton Central area here strike NW and dips at 60 degrees towards the SW forming the south western part of the same anticline which has its north eastern expression at Pimenton Central. The tuffs show strong phyllic and silicic alteration and carry disseminated pyrite. Here Mt. Isa Mines Corporation drilled four 400 meter diamond drill holes, three inclined at 45 degrees and one at 60 all within tuffs as described above. This drill program was conducted during the 1992-1993 exploration season just prior to Mt. ISA terminating all of its exploration activities in Chile.

Biotite porphyry intrusive occurs at either end of the altered area and probably underlies all of it at depth. Stockworking is not as widespread as at Pimenton Central but does occur associated with two strong N60W

faults as well as in the southern and lower part where it is well developed in tuffs and biotite intrusive. Here chalcopyrite, molybdenite, with primary and secondary chalcocite can be found disseminated and in veinlets on the surface and within four shallow drill holes put down by Newmont Mining Corporation in 1989-1990 exploration season and within a 150 meter adit on the 3180 level. Copper values are in the 0.20 to 0.40 % range. This southern area has a NE/SW range of at least 400 meters and a length exceeding 500 meters towards the NW where it passes beneath the tuffs already outlined.

At the beginning of the 2004 exploration season two mobile metal ion (MMI) geochemical sample lines, with samples taken every 50 meters, were run across the area. Samples were sent to the SGS/Lakefield Laboratories in Toronto, Ontario, Canada, for analysis. The two lines gave a strong response for copper, molybdenum, and arsenic coinciding almost exactly with the 400 meter width mentioned above. Lead, zinc, and silver response ratios are not as strong, but have a distinctly peripheral relationship to the three other elements lending credence to the results.

The report was prepared by Dr. David R.S. Thomson, EVP and Director of Exploration of the Corporation with more than 40 years of exploration experience in Chile and Peru.

During 2005, South American Gold and Copper Company Limited (SAGC) continued to re-map diamond drill holes put down by Newmont Mining Corporation during 1987-90, and holes drilled by SAGC between 1995-97. This drill information together with three diamond drill holes put down by Rio Tinto in April to June 2005, and surface geological work over the last two field seasons, has identified within the overall greater Pimenton Alteration Zone two zones on either side of a large fault, the long suspected and now identified Pimenton Valley Fault. Pimenton Central is the first of the zones, starting just north of the present mine workings and extending NNW for over 2,000 meters along the NE side of the steep sided Pimenton valley. It passes from an elevation of 3,375 meters at its southern end to 4,000 meters at its northern end. Cerro Pimenton is the second zone, which starts 800 meters south of Pimenton's mine camp and forms the ridge overlooking the SW flank of the Pimenton Valley and the Pimenton fault zone. It extends to the NW for over 3,000 meters. Elevation varies from 3,100 meters at the SW end to 4,000 meters to the NW. The two areas have alteration and mineralization that could be peripheral to porphyry copper molybdenum mineralization within the fault zone.

Points of geological interest are as follows:

1. The overall alteration at Pimenton extends for 4 by 5 kilometers and marks the upper part of a typical porphyry copper system. Dioritic porphyry is by far the most widespread intrusive at Pimenton. Known copper carried by this intrusive varies from zero up to as much as 0.60 % locally and over limited stretches. It is likely there are as yet several unrecognized pulses of granodioritic-feldspathic to dioritic porphyry at Pimenton, some barren and others carrying copper.
2. Geological information from surface mapping, sampling, geochemistry and diamond drilling within the Central Pimenton and Cerro Pimenton areas is confined to high ground on either side of the Pimenton Valley.
3. The Pimenton Valley bottom for 5,000 meters within the alteration zone is completely filled with scree and glacial deposits over a width of up to a kilometer. Approximately 40 % of the surface area at Pimenton is masked by superficial cover, leaving ample space for buried economic mineralisation.
4. There is a clearly identified roughly circular potassic alteration zone 1,500 meters across located 1,700 meters NW of the Mine Camp. The zone is centered on the Pimenton Valley Fault.
5. Two NE trending copper and molybdenum geochemical anomalies, each 500 meters wide, occur within the potassic zone on the NE side of the Pimenton Valley. These anomalies have been tested by nine

drill holes totaling 3,486 meters, including two holes totaling 1,584 meters put down by Rio Tinto last season. These found trace to 0.25 % copper locally and can be interpreted as having being drilled peripherally to stronger mineralization along the Pimenton Fault.

6. The Condor fault parallels the Pimenton Valley on its SW side and dips steeply into it. The mineralisation and alteration seen in the Maria Elena, Quebrada Mala, and Farellon Negra showings, of which at least two are controlled by the fault, are consistent with being “leakage“ off stronger mineralization within or near the Pimenton Fault. The three showings coincide with IP anomalies.

7 Strong NE striking faults are probably a secondary control where they cross the Pimenton Valley Fault.

8. The Pimenton Valley Fault is a major control for alteration and mineralization at Pimenton and is a priority target for drilling. There are three potential target areas within the valley that are listed below:

- a. Opposite the Farellon Negra showing coinciding with a potassic Center.
- b. Opposite the Quebrada Mala Showing.
- c. Opposite the Maria Elena Showing where it extends into the Rio Colorado.

The better target on present information is the first (a).

9. Results from a 187 sample Mobile Metal Ion orientation survey at Pimenton show the method can be used with advantage to help select drill targets even in areas with thick overburden.

10. At Pelambres, Rio Blanco, Disputada de Las Condes and at El Teniente, all of which are in the same geological belt as Pimenton, the orebodies occur in valley bottoms or valley sides as the mineralized breccias and stockworks were preferentially eroded by glaciers. The eventual setting of a “discovery” at Pimenton could be similar.

11. It is clear to be economic, porphyry copper mineralisation at Pimenton, will have to have at least 500,000,000 tons with a grade near 0.75 % copper together with molybdenum and gold credits. The favorable geological setting and untested space at Pimenton could contain the above potential and more.

The report was prepared by Dr. David R.S. Thomson, EVP and Director of Exploration of the Corporation with more than 40 years of exploration experience in Chile and Peru.

### **Tordillo**

The Tordillo prospect lies 11.5 km south southwest of Pimenton and is 13 km east-northeast of the Noranda/Anglo American West Wall porphyry copper deposit as well as 3 km southeast of Anglo American’s Novicio porphyry copper prospect. The three projects and Pimenton all lie in the central porphyry copper belt of Chile. The upper part of Tordillo with an elevation of 4,600 meters can be seen from the camp at Pimenton.

Salient features of Tordillo based on preliminary fieldwork include a strongly leached silicified and sericitized hornblende diorite porphyry intrusive within a marked depression or amphitheatre roughly 1.5 km across with very steep sides formed of volcanics on three sides. The fourth and northern side is a valley trending to the north. The western section of the depression includes sub-rounded explosive breccias

extending over hundreds of meters. These are strongly leached with plentiful minute voids and carry disseminated limonites and specularite together with phyllic and silicic alteration, and locally some remnant copper oxides and finely disseminated chalcopyrite.

Three east-west reconnaissance geochemical parallel profiles of talus fines 300 meters apart, comprising 42 samples taken every 50 meters, or 2,100 line meters, were assayed for copper, molybdenum, and gold. The northern most profile with a length of 650 meters within fractured and leached altered intrusive with relic finely disseminated chalcopyrite, gave over its length an average of 249-ppm copper, 66-ppb gold and 2.75-ppm molybdenum. The next profile to the south with a length of 650 meters gave at its western end 214-ppm copper over 250 meters coinciding with leached breccias showing voids and limonites, while the eastern end over 400 meters averaged 65-ppm copper. Gold and molybdenum over the 650 meters gave 65-ppb and 3.3-ppm respectively. The third line to the south, over its 700 meter length averaged 94-ppm copper, 20-ppb gold and 3.4-ppm molybdenum. Breccias occur over 250 meters at its eastern end. A fourth line to the south had only two samples taken as weather conditions brought exploration to a halt. These were near the edge of the depression and were strongly anomalous, averaging 500-ppm copper and 285-ppb gold.

In addition, thirteen samples of rock float spread out over 650 meters of strongly leached sericitized hornblende diorite in the southeast part of the depression were assayed for copper and gold. The copper averaged 160-ppm with a low of 20-ppm and a high of 790-ppm. Gold was low averaging 0.013 g/t. Mineralization noted included fine relic chalcopyrite sparse erratic copper oxides and a great deal of disseminated and veinlet specular hematite within the breccias and the intrusive.

The contact of the dioritic intrusive to the north is against silicified volcanics that are reddish in colour due to specular hematite concentrated within strong northwest shearing. These altered volcanics extend over a distance exceeding a kilometer in length with a width of 600 meters. This zone hosts narrow, surface leached 0.10 to 0.60 meter wide siliceous veins of coarse to massive specularite and chalcopyrite in ribbons up to ten or more centimeters in thickness assaying up to 31.49 g/t gold and 17.63 % copper. Strike directions vary from northwest, which is predominant, to east-west or north-south. The trace of one northwest vein can be followed by eye over a distance of 400 meters. In all eighteen separate surface-leached vein outcrops were located and sampled. These could correspond to as many as eleven individual veins, but more work is needed to verify this possibility.

The eighteen leached surface samples are given below. It should be noted these are surface samples partially to near completely leached of values. Furthermore the two meter wide samples are taken from systematic sample lines where individual structures were not sampled. The inference is that detailed sampling within the two meter wide samples will give higher grades over narrower widths. The two meter spacing was used in order to check for possible bulk tonnage potential.

<u>Sample Number</u>	<u>Width</u>	<u>Grams/ton gold</u>	<u>Percent Copper</u>
13618	200	4.45	3.94
13620	200	1.43	0.35
13622	110	0.72	6.96
13623	50	0.99	0.54
13602	10	19.51	18.28
13711	35	7.75	11.27
13710	25	1.61	1.62
13619	200	3.51	1.58
13756	200	1.09	0.71
13755	200	1.85	0.19
13754	200	4.45	0.89
13789	200	8.06	2.11

13774	200	1.01	0.47
13776	200	3.62	1.68
13643	60	5.45	1.46
13713	10	7.39	2.40
13714	40	31.49	17.63
13715	30	0.15	0.79

The above assays were conducted by Acme Laboratories S.A. whose parent company, Acme Laboratories Ltd., is located in Vancouver, BC. The assay method used was by fire assay.

The volcanics that form the high rim of the amphitheatre to the west, east, and south show the same reddish colour as the volcanics carrying the known veins to the north. It remains to be verified if they also carry gold copper veins.

The terrain is extremely rugged with elevations varying between 3,800 and 4,670 meters. Only a quarter of the terrain corresponding to the northern contact zone surrounding the central depression has been examined in a cursory manner. The widespread leached and mineralized explosive breccias as well as the altered hornblende diorite porphyry with relic chalcopyrite needs to be mapped.

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 maybe widespread and represent a separate exploration target.

The presence of strong extensive explosive breccias is markedly different from Pimenton and reminiscent of the porphyry copper systems at Andina, Disputada de Las Condes, and El Teniente. Exploration next season should bring into perspective the vein potential and establish if the porphyry system is large enough to host possible economic copper mineralization.

The report was prepared by Dr. David R.S. Thomson, EVP and Director of Exploration of the Corporation with more than 40 years of exploration experience in Chile and Peru.

### **Catedral/Rino Property (Chile)**

#### ***Location and Size***

The Catedral/Rino project covers an area of 19,895 hectares and consists of 86 concessions. The Corporation's interest in this project is held through its 50.1% interest in Compañía Minera Catedral ("CMC"), which is the holder of the Catedral concession. Catedral/Rino consists of two separate but adjacent limestone deposits, The Catedral deposit and the Rino deposit. Both deposits lie at an elevation of 2100 up to 2900 meters and are located 120 km southeast of Santiago, Chile, of which 78 are paved and the last 42 km are gravel. Total driving time from Santiago to the deposits is approximately two and one half hours.

Elevations vary from less than 2100 meters up to 2900 meters. The valleys show the sculpting effects of past glaciation as well as lateral and successive terminal moraines, etc. Flowing water is present all year round showing a peak with the spring thaw of winter snows. The first snow arrives toward the end of April and lasts until October. In the rest of the year there can be light snowfalls in the higher elevations which melt off rapidly. The winter storms are intermittent but can last two to four days, with snow falling above 2000 meters. Much of the future mining area faces north, which will help reduce snow cover on these slopes due to the sun. The natural gas pipeline, which supplies Santiago from Argentina, passes within two km of the project area. A take off valve to service a future cement and lime plant has been installed.

All claims payments have been validly paid to date and CMC holds a servidumbre (right of access) to the property.

### ***Current Status***

In September 2004 the corporation was invited by CODELCO, the Chilean state owned copper company, to enter into a “solicitation” process which, if chosen as a “qualified bidder”, would be followed up by CODELCO providing additional technical information to those companies chosen as “qualified bidder”. CODELCO’s purpose of the “solicitation” is to identify one or more companies selected as “qualified bidders” to submit proposals to CODELCO to supply its long term lime supply requirements in Chile.

In order to assure CODELCO of its technical qualification in lime chemistry, lime plant operations and management and financial capacity, the Corporation has entered into discussion with a major European international lime and limestone products company to participate with the Corporation in the “solicitation” process. This international company has accepted the Corporation’s invitation and is now working jointly with the Corporation. By mutual agreement it has been agreed that until such time as conversations with CODELCO are advanced to the point of structuring a formal lime supply solution to CODELCO that formalized discussions on a joint venture arrangement between the Corporation and the international company should be deferred.

The corporation was informed in October 2004 by CODELCO that it had been selected as a “qualified bidder,” and that it should expect to receive technical data and a “Licitacion” bid package from CODELCO in January 2005.

As a part of its own due diligence the Corporation made site visits during November and December 2004 to (1) CODELCO’s Chuquicamata lime plant operations (2) CODELCO’s El Teniente’s plant and smelter facilities (3) the lime plant operations of Los Lirios, which is owned and operated by a division of CODELCO and before being shut down in December 2004, had been the major supplier of lime to the El Teniente operations and (4) the Las Leñas limestone deposit, which is owned by CODELCO and located in difficult terrain at between 3,400 to 4,100 meters above sea level approximately 140 kilometers south east of the Los Lirios lime plant.

In January 2005, the Corporation contacted Codelco to determine the status of the “Licitacion” bid package and was informed that certain Codelco divisions had been delayed in submitting required information to complete the “Licitacion” bid package but were promised that it would be ready for distribution in June 2005.

In June 2005 the Corporation was informed that Mr. Arancibia, who was responsible for completing the “Licitacion” bid package had been replaced and that some of the information supplied by SAGC?Carmeuse as well as by other “qualified” bidders had been misfiled but were assured the “Licitacion” bid package would be completed in September 2005.

In late September the Corporation was informed that because of the upcoming presidential elections in December 2005 management had taken the decision not to send out the “Licitacion” bid package until it was reviewed by the new chief operating officer and other newly appointed senior officers of Codelco who will be appointed by the newly elected president of Chile.

### ***Geology of the Catedral/Rino Area***

The limestone deposit, which has been identified for the Project encompasses two well-identified limestone deposits, Rino and Catedral, located approximately 120 km by road southeast of Santiago, just west of the frontier with Argentina. The deposits are located in the Los Valdes Formation, which stretches along a significant distance of the high Cordillera near the Argentinean border. The Rino and Catedral sites are located in one of the few readily accessible areas in this locale and have an altitude of 2,200 meters and 2,100 meters, respectively, at their lowest points.



The limestone at Rino/Catedral is correlated with the upper part of the Los Valdes Formation, which is of Jurassic Crustaceous age. There are close to six hundred meters in thickness of limestone, with the best in the younger upper half of the sequences.

In the project area, the Los Valdes Formation occurs on either side of a broad anticline four km across striking N10W. The Catedral limestone deposit is located on the western limb of the anticline and dips steeply west at near eighty degrees and runs south for five km from an elevation of 2,000 meters up to 3,500 meters. A one km section on the northern end of this belt was affected by a very strong regional fault trending N70E, which has distorted the adjacent limestone by folding and faulting. The folding, in part, has increased the overall thickness of the limestone on the surface, making the limestone at Rino more accessible for large-scale open pit mining. To the south, the remaining four km of limestone at Catedral is unaffected by folding and faulting.

### ***Catedral Property***

In 1999 Compañía Minera Catedral started to investigate high-grade limestone potential at Catedral to support a proposed 420 to 600 tpd capacity lime kiln producing facility to supply the Central Zone of Chile, on which the Corporation has prepared a pre-feasibility study. Additional work on the property indicates the high-grade limestone resource and associated gypsum at Catedral could host a larger project beyond that of a lime kiln.

### ***Geology***

Limestone at Catedral occurs in the upper part of the Los Valdes Formation, which is of Upper Jurassic, lower Cretaceous age. In the project area, micritic to fossiliferous limestone is included within limestone sediments over 350 meters thick with well defined beds showing a calcium carbonate content varying from some 50% to well over 90%, at least one 30 meter thick bed of massive gypsum is included. The formation in the project area strikes just west of north, with steep dips predominating towards the west as it corresponds to the western limb of a broad anticline whose crest lies to the east. The limestone is underlain by sandstones, sedimentary breccias, conglomerates and gypsum of the Middle Los Valdes Formation and overlain by red sandstone, shales, breccias and lenses of gypsum together with andesitic tuffs and flows of the Colimapu Formation.

The detailed sampling shows the various limestone beds can be correlated between traverse lines with some confidence. In some places, owing to excessive depth of surface cover, there are some gaps in the sample information. Due to local changes in dip and strike, correlation between the traverse lines for three beds is not entirely clear. Drilling is needed to improve the correlation.

### ***Catedral Channel Sampling Program***

Over a four-week period during May 2001, a four-man crew ran three sample traverses approximately 90 meters apart at right angles across the 350 meter wide limestone formation at Mona South. The limestone outcrops were sampled and trenches were dug to a depth of a meter where there was surface cover between outcrops. As far as possible, sampling was continuous. In the first and topographically lowest traverse, samples were taken every 2 meters, while at the other two traverses, they were taken every meter. Samples weighing between 3 to 5 kilos of rock were taken for every meter sampled. The samples were transported 2 km by mule to the end of the road leading to the main road up the Maipo valley. In all, 361 samples were sent to ACME Labs in Santiago for analysis. Initially, all the samples were analyzed for total carbonate by titration in Santiago to identify for more detailed analysis those with over 86% total carbonate. The plus 86% total carbonate samples were processed by ACME Laboratories in Vancouver, Canada using lithium methaborate fusion, nitric acid digest, with determination by ICP. Half of the pulp of every twentieth sample was sent to Construction Technology Laboratories, Skokie, Illinois, USA for check assaying.

The channel sampling program successfully identified seven beds of limestone with widths of 6 to 14 meters or a combined thickness of 72 meters. Based on an average of the grade of limestone (CaCO<sub>3</sub>) of

the samples taken from each limestone bed, the average grade of limestone contained in the seven beds is calculated to average 90.54% CaCO<sub>3</sub>.

All the samples taken between the high-grade beds were sent in for detailed assaying. This was done in order to assess the potential for using this lower grade limestone for cement production at some future date. These results, while favorable, are not included in this report.

### ***Catedral Preliminary Feasibility Study***

During 2002, the Corporation continued to advance work on a preliminary feasibility study under the direction of Mr. John J. Selters for the development of the Catedral lime project. A Base Line environmental study was completed on the project and the Corporation successfully drilled and completed a water well capable of supplying the water requirements of the proposed mine and lime plant operations.

### ***Rino***

In February 1998, a Phase I feasibility study prepared by Penta Engineering Corp. St. Louis, Missouri, was completed for a planned 1,450,000 metric ton per year cement manufacturing facility utilizing a new generation design of flash dryer and a limestone slurry pipeline to transport limestone from the quarry to the plant site, a distance of 100 km, which would result in a highly efficient operation with manufacturing costs per tonne of cement near \$35.00. The feasibility study utilizes a limestone slurry pipeline which greatly reduces raw materials transportation costs compared to substantially more expensive truck, rail and water modes of transportation currently being used by existing cement producers in Chile. The Rino cement manufacturing facility was planned to be located near Rancagua, Chile, less than 100 km to the south of Santiago.

Following completion of the feasibility study on Rino, the Corporation engaged Citibank N.A. as its financial advisor in an attempt to joint venture or sells the proposed Rino Cement Project. While discussions with several potential joint venture partners were in progress, the Chilean economy began to feel the effect of the "Asian Economic Crisis" and the adverse economic events in Brazil. The combination of these events caused a serious economic downturn in construction activity and on the Chilean cement industry. As a result of the uncertainty and timing of a recovery of the Chilean cement market, discussions with potential joint venture partners were terminated.

### ***Rino Geology***

The Rino deposit, where the project limestone reserves are concentrated, lies on the eastern side of the anticline. Immediately to the north of Rino runs the steep, very strong N70E fault mentioned above, which has thrown down younger continental sediments and volcanics of the Colimapu formation against the older sediments, abruptly terminating the continuity of the limestone to the north. The fault has also distorted the limestone at Rino, so that the limestone was locally folded into an anticline structure plunging steeply to the north. In a general way, the bulk of the limestone coincides with a conical mountain 2900 meters high. The northern slope, over a 700 meter interval, is made up of limestone outcrops which extend over a distance exceeding one km. In the eastern part of this area, the strike of the limestone N5W with dip of 70 to 75 degrees toward the east. In the west, the strike swings from N10W with a 70 degree dip to the east, to N50W dipping 40 degrees north, reflecting the plunging anticline structure already mentioned. The whole of the area can be mined by open pit.

In 1997, the Corporation completed a 1,560 meter diamond core drill program on the Rino limestone deposit which established a resource estimate of 284,000,000 tonnes of cement-grade limestone. 100,000,000 tonnes from this aggregate estimate relate to indicated resources and the remaining 184,000,000 tonnes relate to resource categories that are no longer used in 43-101, but were relevant at the time that the estimate was prepared. This estimate was prepared in 1998 by Penta Engineering and is the

most current and reliable estimate available to the Corporation. Mining method planned was open pit with an average strip ratio of less than one to one.

### **Compañía Minera Cal Norte Property, Chile**

#### ***Location and Size***

Compañía Minera Cal Norte (“Cal Norte”) is a 60% owned subsidiary of the Corporation and holds three mining claims totaling approximately 600 hectares on the Hornito and Ceci Tres limestone deposits. The properties are located in Quebrada, Quelon, Community of Canela, IV Region, approximately 325 km north of Santiago, at an elevation of 1,000 meters and is not impacted by snow during the Chilean winter season. Access is by paved road for approximately 310 km and 15 km of gravel road to the mine site. All claims payments are current and paid to date.

#### ***Current Status***

In June 2001, Cal Norte engaged Phoenix Process Engineering, Inc., to revise an internal preliminary study dated August 1999 which was prepared, based on utilizing a 150 tpd capacity oil fired vertical shaft lime kiln. Due to the substantial increase in world oil prices in mid-2001, the Corporation determined that utilizing oil to fire the kiln could adversely impact the economics of the Cal Norte project. While oil prices were escalating, coal prices remained unaffected and relatively stable.

The revised preliminary study dated November 2001 incorporates the use of a rotary shaft lime kiln with a pre-heater which can be fired with either coal or petroleum products. The study incorporates an updated independent reserve report on the Hornito limestone deposit based on the results of a diamond drill program, which was completed in September 2001. The study also incorporates a new mining plan for the Hornito limestone deposit based on the results of the diamond drill program and on the results of crushing tests on limestone mined from Hornito, which were conducted in early 2001. The study is marked as “Preliminary/Subject to Final Revision” and will be finalized by the Corporation at such time as the final bid proposals are requested from companies which specialize in the design and supply of rotary shaft pre-heater kilns.

In August 2002, Metso Minerals Industries, Danville, Pennsylvania, completed extensive testing and issued its Final Test Report entitled “Rotary Batch Kiln Test on Cal Norte’s Hornito Limestone Deposit.” Based on the favorable results of the tests by Metso Minerals Industries, the Corporation re-initiated discussions with potential customers in late 2002.

In 2002 discussions were initiated with the Overseas Private Investment Corporation (OPIC), an agency of the U.S. government headquartered in Washington D.C. and a formal application for financing the Cal Norte lime project was submitted to OPIC in early 2003. Shortly thereafter gold prices started to increase substantially and the Corporation determined that it should refocus its attention on its Pimenton gold mine, which could be placed into operation in a shorter period of time than the 18 month construction period required to place a new lime kiln into operation at Cal Norte. The Corporation discussed this alternative with OPIC and the Cal Norte loan application was placed on hold. A new loan application was subsequently filed with OPIC on behalf of Compañía Minera Pimenton by the corporation for the financing of restarting operations of the Pimenton gold mine. In December 2003, Compañía Minera Pimenton entered into a loan agreement with OPIC.

In 2003, Cal Norte engaged Constructora BDS S.A., a Chilean construction firm, to review the revised preliminary study and to provide a  $\pm 20\%$  cost estimate on the project based on increasing the lime kiln plant capacity from 150 tonnes of lime production per day up to 180 tonnes per day of lime production. This analysis included (1) a summary cost estimate, (2) details of cost estimating, (3) a construction program and (4) total project programs. While the estimated capital costs, excluding mine development and mine equipment costs, were estimated to be \$9,833,000 compared to an estimated \$7,404,544 for the 150 tonne

per day capacity plant, the projected IRR at a price of \$120 per tonne (100% basis free lime) on the larger capacity kiln was calculated at 46.2% compared to 27.7% Net Equity IRR on the smaller unit.

In December 2005 the Corporation was approached by a Chilean investor group who have expressed a preliminary interest in studying the Cal Norte project as an investment opportunity. The outcome of these discussions is not determinable at this time.

### **Reserves**

The following is the summary section of the independent reserve report prepared in accordance with National Instrument 43-101 under the direction of Mr. Selters, of Selters and Company Ltda. on the Hornito and Ceci Tres limestone deposits held by Cal Norte.

### **Hornito Mine**

#### **Summary**

This represents a revised estimate of the Mine Recoverable Limestone Reserve for the Hornito mine, located in the Quelon valley approximately 100 road km northeast of Los Vilos, Region IV. The UTM coordinates of mine are 291,400 East; 6,527,000 North. The Hornito and Ceci Tres mineral claims are held by Minera Cal Norte, which in turn is 60% owned by the Corporation.

The revised estimate has been prepared following completion of a five-hole 905.6-meter core drilling program conducted in May and June 2001.

The revised estimate is summarized as follows

#### **Hornito Limestone Resources and Mine Recoverable Reserves (tonnes)**

<b>Resource Category (1)</b>			<b>Reserve Category (2)</b>	
Measured:	1,046,000	⇒	Proven:	918,000
Indicated:	320,000	⇒	Probable:	263,000
<b>Subtotal:</b>	<b>1,366,000</b>			<b>1,181,000</b> <b>@ 90.4% CaCO<sub>3</sub></b>

and additionally, in the Hornito Mine:

#### **Inferred Resources: 808,000**

- (1) The resource estimate was prepared from the geologic perspective by a qualified consulting geologist, Carlos Theune, who applied volumetric estimates and reasonable extensions to the grade and thickness data obtained from trench sampling and the limestone intersections from the recent drilling program. His estimate of the average thickness for Manto Principal is 6.8 meters. He applied that average thickness to a strike length of 330 meters times a vertical height of 183 meters for the measured category and an additional 53 meters depth for the indicated category. The density factor is 2.7 tonnes per cubic meter.
- (2) The measured and indicated portion of these resources are converted to a Mine Recoverable Limestone Reserve according to a mining plan developed by a “qualified person”, which includes the following factors:

- i. A cutoff of 86% CaCO<sub>3</sub> applied to all intersections to determine mine design limits (manto thickness). This cutoff corresponds to the minimum saleable product grade.
- ii. Adding a mining dilution factor of 30 centimeters to allow for over-break beyond the design mine limits. Where the adjacent wall rock was below 82% CaCO<sub>3</sub>, the dilution is taken from within the high-grade section by reducing the mine design limit by the corresponding thickness. Mining procedures are designed to minimize the over-break and control delivered limestone grades to average 90% CaCO<sub>3</sub> or better in order to optimize the final lime product at 75% available calcium oxide or higher.
- iii. With these considerations, the average design limit manto thickness on Manto Principal before dilution is 6.34 meters. After 0.3 meters of dilution on each wall, the thickness is 6.9 meters.
- iv. The average density of the limestone is 2.7 tonnes per cubic meter.
- v. A total of 15% of the resource tonnage (with the added dilution) is deducted as mining loss as an allowance for permanent pillars. This relatively high mine recovery of 85% will be achieved by methods commonly used in underground gold mining on veins including provisions for systematic and safe recovery of most of the pillars.
- vi. Modification of the Mining Plan according to the new resource and geotechnical data from the drilling program. Plan will establish an inclined ramp with successively deeper crosscut to the limestone beds down to lowest elevation of the reserve (474 meters above sea level).
- vii. Definition of a project with satisfactory economics for production and delivery of burnt lime to specific clients. (For the fundamental approach to and economic context for producing and marketing these limestone reserves, reference is made to the July 1999 feasibility study).
- viii. Environmental Impact Study has been completed, presented and approved.

#### ***Additional Resources***

Of the 808,000 tonnes of potential additional resources in the Inferred Resource category, 510,000 tonnes are estimated on the adjacent Mantos "B" and "D" based on excellent "single" intercepts in the southern sector of each of these Mantos (7.0 meters @ 89.5% and 13.7 meters @ 90.5% CaCO<sub>3</sub> respectively). Although there can be no certainty as to the extension of these zones along strike or dip, they can be easily reached by probe drilling from Manto Principal workings during the early stages of mine development, and should be readily converted to additional proven reserves, accessible for mining after the first year of operation.

#### ***Ceci Tres Summary***

The Ceci Tres area is unchanged in terms of resource estimates since 1999. However, because no mine plan has been developed for the Ceci Tres mantos, the previously estimated proven and probable reserves are now re-classified as measured and indicated resources, totaling 2,465,000 tonnes distributed in three sectors. This change of classification is in response to the new Canadian reporting standards, which require a specific mining plan be developed for any reserves classified as Proven or Probable.

### ***History***

In July 1999, SAGC entered into a formal agreement with Compañía Minera Quelon for the formation of Compañía Cal Norte. Under the agreement, the Corporation 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. Compañía Minera Quelon contributed its mining equipment, related mine facilities and limestone deposits. SAGC has agreed to fund up to \$1,800,000 to Cal Norte as its contribution toward a project to develop a 150 tonne per day lime manufacturing operation.

As of September 30, 2004, SAGC had contributed \$1,189,000 to the project to finance a bankable feasibility study on the project and for environmental permitting and further mine development on the project.

In August 1999 a feasibility study for the development of a 150 tonne per day lime manufacturing facility to be located at the Cal Norte mine site was completed. On completion of the feasibility study the Corporation initiated discussions with several potential customers for the purchase of lime from the proposed Cal Norte facility. The Corporation obtained one contract for 30 tonnes per day of lime from a copper mining company and a letter of intent from a gold mining company. While continuing its efforts to obtain additional lime purchase contracts for the lime plant's output the Corporation engaged a Chilean-based financial advisor to assist it in obtaining bank financing for the Cal Norte project. While discussions with banks were in progress, the Corporation was notified by the gold mining company from whom it had received a letter of intent that due to continued low gold prices, the mining company had made the decision to terminate operations at its gold mine. The loss of this potential contract substantially reduced the Corporation's ability to reach satisfactory financing terms.

In October 1999 the Corporation received all requisite environmental permits on the Cal Norte project, following which it initiated further discussions with the Chilean copper company from whom it had received a contract commitment for 30 tonnes of lime per day. The results of these discussions are described above under "Current Status."

### **Competition, Environment and Foreign Operations**

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

All phases of the Corporation'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 Corporation is subject to 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 Corporation'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 Corporation's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumptive patterns.

**ITEM 4: SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The table below presents a summary of SAGC's financial information for the past three years. All figures are in thousands of dollars except for per share amounts. The Corporation's fiscal year ends on September 30.

For a more detailed discussion of financial information, please see the consolidated financial statements (and the notes referred to therein) of the Corporation for the fiscal year ended September 30, 2004 (the "Annual Financial Statements") that are hereby incorporated by reference herein and that are available under the Corporation's company profile on SEDAR. The Annual Financial Statements are prepared in accordance with Canadian GAAP.

(Thousands of US dollars, except per share amounts)

	Years Ended September 30,		
	2005	2004	2003
Precious Metals Revenues	2,315	938	NIL
(Loss)/Earnings	(5,195)	(4,648)	(1,341)
(Loss)/Earnings Per Share	(0.01)	(0.01)	(0.01)
(Loss)/Earnings Per Diluted Share	(0.01)	(0.01)	(0.01)
Total Assets	22,316	23,861	16,289
Cash Dividends	NIL	NIL	NIL

On July 1, 2004 the Corporation commenced commercial production at its Pimenton gold mine. The Corporation is also engaged in exploration and development on its other mineral properties. The Corporation incurred losses of \$5,195,000 in 2005 and \$4,648,000 in 2004, which included the write-downs of exploration properties of nil and \$150,000, respectively.

On June 9, 2005, a major storm system moved through the Central Andes causing extensive avalanche activity throughout the region. During a period of 10 days, the storm dropped almost four meters of snow, causing extensive avalanche danger at the mine and along the road leading to it. Avalanche experts at the mine site were successful in controlling most avalanches protecting the camp and plant buildings at the mine. However, electrical and air compressor equipment at the mine's main portal entrance were damaged causing a shutdown of the mine since that time. Accordingly, revenue for 2005 were adversely impacted. Results for 2005 include revenues from gold sales of \$1,877,000 compared to \$799,000 in 2004 and from silver and copper of \$438,000 compared to \$139,000 in 2004.

The Corporation commenced commercial production at its Pimenton gold mine in July 2004. During the start up phase management expected some problems but experienced some unexpected problems as well. Corrective changes have been made. All of the mine's production is sold to Enami, a subsidiary of CODELCO, the state owned mining company. Enami was created to promote the growth of small and medium size mining companies and is mandated to accept the production of these companies.

Depreciation, depletion and amortization expenses were \$1,868,000 in 2005 compared to \$1,390,000 in 2004. Prior to commercial production in July 2004 depreciation expense, except for depreciation on office furniture and equipment, was capitalized as development costs. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to mining properties, plant and equipment and are amortized into operations using the unit-of-production method over the estimated useful lives of the related ore reserves.

In 2005, the Corporation recorded a temporary mine closure expense of \$1,072,000 consisting of salaries, lease obligations, payment to supplier and other costs incurred at the Pimenton mine.

The write down of exploration properties amounted to nil in 2005 compared to \$150,000 in 2004, which represented miscellaneous exploration expenditures that were expensed during that year.

General and administrative expenses increased by \$518,000 from \$1,333,000 in 2004 to \$1,851,000 in 2005. This increase resulted in the following: higher overhead in Santiago due to a full year of operations (\$591,000), higher audit fees (\$74,000), higher fees for accounting services (\$34,000), higher travel expenses (\$30,000) and higher other expenses (\$9,000) offset by lower severance payments (\$174,000), lower shareholder expense (\$21,000), lower legal fees (\$25,000).

Stock based compensation of \$513,000 represents the fair value of 400,000 common shares (\$22,000) and 19,400,000 share options (\$491,000) issued to officers, directors and employees during 2005 compared to \$775,000 representing the fair value of 8,000,000 common shares (\$564,000) and 8,000,000 share options (\$192,000) issued to an officer and director of the company and 250,000 common shares (\$19,000) issued in settlement of a consulting contract in 2004. The common shares were valued at the closing price on the Toronto Stock Exchange on the business day preceding the grant date. Share options were assigned fair values using the Black Scholes valuation model.

Interest expense increased by \$20,000 due to a full year of interest on the OPIC loan (\$93,000) and interest on capital leases (\$5,000) offset by interest in the Finalven note (\$78,000) in 2004.

Tax losses incurred in Chile in 2005 will be available to offset future taxable income and, accordingly certain tax benefits of these losses in the amount of \$980,000 have been recorded. This results in no net future income tax liability as at September 30, 2005.

Long term debt totaled \$2,868,000 as at the Corporation's fiscal year ended September 30, 2005, compared to \$3,333,000 as at September 30, 2004. This decrease was due to a reduction in the OPIC loan in the amount of \$622,000 but offset by an increase in the accretion of interest on the Pimenton notes and an increase in capitalized leases

At September 30, 2005 cash and cash equivalents were \$50,000 and current restricted cash was \$440,000.

During 2005 the Company raised \$2,159,000 through a private placement and received \$649,000 in cash advances from officers and directors and \$89,000 from the sale of assets. In addition, \$754,000 was released from the construction and completion escrow account by OPIC. These funds were used to fund capital improvements at Pimenton, pay interest and principal payments to OPIC and fund operating losses at Pimenton.

On May 11, 2005, Pimenton advised OPIC that it was not in compliance with financial and operating covenants of its loan agreement and OPIC granted Pimenton a waiver from March 31, 2005, to June 30, 2006, with respect to financial and operational covenants which had not been met and reduced the working capital ratio, as defined, to 1.0.

Due to the closure of the mine, Pimenton advised OPIC that it believes it will not be in compliance with the financial and operating covenants including the reduced working capital ratio of 1.0 for the calendar quarters through and until October 1, 2006. Pimenton informed OPIC that it had declared "force majeure" with respect to salary payments and other benefits payable with respect to its labor contracts with the workers and certain staff personnel at its mine. Pimenton has also notified its creditors in writing that it has ceased payments of all trade payables and amounts due under lease purchase or other contracted services.

As of September 30, 2005, OPIC has granted Pimenton waivers with respect to the financial and operating events of default discussed above until October 1, 2006.

Chilean tax losses can be carried forward indefinitely provided the Company maintains the necessary documentation supporting such losses. During 2004, the Company discovered that the documentation required to substantiate these losses had been lost or destroyed while in storage or during a move. Accordingly, a substantial portion of the loss carry-forward future tax asset of approximately \$1,715,000 will no longer be available to offset future income tax at Pimenton. Also, to the extent that the Company



cannot support the tax basis in certain assets and liabilities on the balance sheet, a deferred tax liability has been recorded in the amount of \$980,000.

Management is currently considering what action can be taken, if any, to ameliorate the impact of the loss of records, but the outcome of such action is not presently determinable.

The Corporation 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 Corporation's earnings, financial requirements and other conditions existing at such future time.

#### **ITEM 5: MANAGEMENT'S DISCUSSION AND ANALYSIS**

For more information on the Corporation, see the section of the Corporation's 2005 Annual Report entitled "Management's Discussion and Analysis of Financial Conditions and Results of Operations."

#### **ITEM 6: MARKET FOR SECURITIES**

The common shares of the Corporation are listed and posted for trading on the Toronto Stock Exchange under the symbol "SAG".

#### **ITEM 7: DIRECTORS AND OFFICERS**

Directors are elected at each annual meeting of shareholders to hold office until the subsequent annual meeting. The names and municipality of residence of the directors and officers of the Corporation, the positions and offices held by them within the Corporation, their respective direct and indirect shareholdings in the Corporation, and their principal occupations for the past five years are set forth in the table below.

<b>Nominee</b>	<b>Position held in Corporation</b>	<b>Principal Occupation<sup>1</sup></b>	<b>Director Since</b>	<b>Number of Common Shares Beneficially Owned or Controlled as at January __, 2006<sup>2</sup></b>
Paul J. DesLauriers Toronto, ON, Canada <sup>3,4</sup>	Director	Executive Vice President and Director Corporate Finance, Loewen, Ondaatje, McCutcheon Limited (brokerage firm)	February 5, 2002 <sup>1</sup>	2,356,061 <sup>5</sup>
Mario Hernandez Santiago, Chile	Executive Vice President, Claims and Land Management and Director	Executive Vice President, Claims and Land Management and a director of the Corporation	March 13, 1997	25,890,156 <sup>6</sup>
Stephen W. Houghton New York, N.Y., U.S.A.	President, Chief Executive Officer and Director	President, Chief Executive Officer and a director of the Corporation	May 12, 1994	28,010,019
Jay C. Kellerman Toronto, ON, Canada	Secretary	Partner, Stikeman Elliott LLP	Not Applicable	None
William C. O'Donnell New York, NY	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer of the Corporation and independent consultant	Not Applicable	2,785,493
Frederick D. Seeley West Falmouth, MA, U.S.A. <sup>3,4</sup>	Director	Chairman Givens Hall Bank and Trust Ltd. (Cayman Islands, BWI)	May 12, 1994	377,500
David R.S. Thomson Santiago, Chile	Executive Vice-President, Exploration and	Executive Vice-President, Exploration and a director of the Corporation	March 13, 1997	28,226,841 <sup>7</sup>

<u>Nominee</u>	<u>Position held in Corporation</u>	<u>Principal Occupation<sup>1</sup></u>	<u>Director Since</u>	<u>Number of Common Shares Beneficially Owned or Controlled as at January __, 2006<sup>2</sup></u>
	Director			

1. Information respecting the principal occupation of each director has been provided by such director.
2. Information respecting holdings of common shares of the Corporation has been provided by individual directors.
3. Member of Audit Committee.
4. Member of Compensation Committee.
5. Held by a company of which Mr. DesLauriers owns all of the issued and outstanding shares.
6. Of said shares, 20,654,448 are held by two separate companies; all of the issued and outstanding shares of each of these companies are owned by Mr. Hernandez. The remaining 5,235,708 are held in the name of Mr. Hernandez personally.
7. These shares are held by a company which is controlled by another company of which Mr. Thomson owns 66% of the issued and outstanding shares.

As at January \_\_, 2006, the directors and officers of the Corporation, as a group, beneficially owned, directly or indirectly, or exercised control over, an aggregate of 87,646,070 common shares representing approximately 20% of the issued and outstanding common shares of the Corporation on such date.

#### **ITEM 8: ADDITIONAL INFORMATION**

- (1) The Corporation shall provide to any person or company, upon request to Stephen W. Houghton, President and Chief Executive Officer, at 420 Madison Avenue, New York, New York 10017
  - (a) when the securities of the Corporation are in the course of a distribution under a preliminary short form prospectus or a short form prospectus has been filed in respect of a distribution of its securities
    - (i) one copy of the AIF of the Corporation, together with one copy of any document, or the pertinent pages of any document, incorporated by reference herein;
    - (ii) one copy of the comparative financial statements of the Corporation for its most recently completed financial year for which financial statements have been filed together with the accompanying report of the auditors thereon, and one copy of the most recent interim financial statements of the Corporation that have been filed, if any, for any period after the end of its most recently completed financial year;
    - (iii) one copy of the management information circular of the Corporation in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared instead of that information circular, as appropriate; and
    - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i), (ii) or (iii) above; or
  - (b) at any other time, one copy of any other documents referred to in (1)(a)(i), (ii) and (iii) above, provided that the Corporation may require the payment of a reasonable charge if

the request is made by a person or company who is not a security holder of the Corporation.

- (2) Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Corporation's most recent management information circular described in (1)(a)(iii) above. Additional information is also provided in the Corporation's consolidated financial statements for the year ending September 30, 2004.