South American Gold and Copper Company Limited

Consolidated Financial Statements
September 30, 2004 and 2003
(expressed in thousands of U.S. dollars)

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Auditors' Report

To the Shareholders of
South American Gold and Copper Company Limited

We have audited the consolidated balance sheets of **South American Gold and Copper Company Limited** as at September 30, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

South American Gold and Copper Company Limited

Consolidated Balance Sheets

As at September 30, 2004 and 2003

(expressed in thousands of U.S. dollars)

	2004 $	2003 $
Assets		
Current assets		
Cash and cash equivalents	226	112
Restricted cash (note 11(a))	429	-
Receivables		
Trade	168	-
Sundry (notes 8 and 17)	376	213
Recoverable taxes (note 6)	1,718	-
Materials and supplies, at cost	118	-
	3,035	325
Equipment (note 5)	-	29
Mining properties, plant and equipment (note 6)	14,664	11,437
Exploration properties (note 7)	5,019	4,418
Restricted cash (note 11(a))	754	-
Deferred debt expense (note 11(a))	389	80
Total assets	23,861	16,289

Pledged assets (note 11(a))

South American Gold and Copper Company Limited
Consolidated Balance Sheets *...continued*
As at September 30, 2004 and 2003

(expressed in thousands of U.S. dollars)

	2004 $	2003 $
Liabilities		
Current liabilities		
Current portion of long-term debt (note 11)	691	-
Accounts payable and accrued liabilities (note 17)	1,204	355
Provisions and other (note 10)	828	323
	2,723	678
Long-term debt (note 11)	3,333	1,842
Future income taxes (note 4)	980	-
Reclamation and remediation (note 14)	706	-
Non-controlling shareholders' interest in consolidated subsidiary	154	136
Total liabilities	7,896	2,656
Shareholders' Equity		
Share capital (note 9(b))	56,907	51,292
Contributed surplus (note 13)	316	315
Options (note 9(c))	192	-
Warrants (note 12)	1,444	236
Deficit	(42,894)	(38,210)
Total shareholders' equity	15,965	13,633
Total liabilities and shareholders' equity	23,861	16,289

Nature of operations and going concern (note 1)

Commitments (note 16)

Approved by the Board of Directors

Paul J. DesLauriers
Chairman

Stephen W. Houghton
Director

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

South American Gold and Copper Company Limited

Consolidated Statements of Operations and Deficit

For the years ended September 30, 2004 and 2003

(expressed in thousands of U.S. dollars, except per share amounts)

	2004 $	2003 $
Revenue		
Gold	799	-
Copper and silver	139	-
	938	-
Expenses		
Operating costs	938	-
Amortization	1,390	10
Writedown of exploration properties (note 7)	150	136
General and administrative	1,333	817
Stock-based compensation (note 9(b)(v))	775	-
Foreign exchange gain	(41)	(23)
Interest on long-term indebtedness	592	408
	5,137	1,348
Loss before undernoted	4,199	1,348
Gain on refinancing (note 11(b))	(543)	-
Interest income	(6)	-
Loss before income taxes and non-controlling shareholders' interest in consolidated subsidiary's loss	3,650	1,348
Provision for future income taxes (note 4)	980	-
Non-controlling shareholders' interest in consolidated subsidiary's loss (income)	18	(7)
Loss for the year	4,648	1,341
Deficit - Beginning of year	38,210	36,985
Loss (gain) on warrant valuation (notes 9(b)(vi) and 12(d))	36	(116)
Deficit - End of year	42,894	38,210
Basic and diluted loss per share (note 3)	(0.01)	(0.01)

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

South American Gold and Copper Company Limited

Statements of Cash Flows

For the years ended September 30, 2004 and 2003

(expressed in thousands of U.S. dollars)

	2004 **$**	**2003** **$**
Cash provided by (used in)		
Operating activities		
Loss for the year	(4,648)	(1,341)
Non-cash items		
Provision for future income taxes	980	-
Writedown of exploration properties	150	136
Amortization	1,390	10
Gain on refinancing	(543)	-
Accretion of interest on notes payable and amortization of deferred debt expense	322	408
Foreign exchange gain	(41)	(23)
Non-controlling shareholders' interest in consolidated subsidiary's loss	18	(7)
Non-cash employee share compensation	564	173
Non-cash non-employee share compensation	19	-
Non-cash employee options	192	-
Non-cash non-employee warrants	19	-
	(1,578)	(644)
Changes in non-cash working capital relating to operations (note 19)	(623)	135
	(2,201)	(509)
Investing activities		
Purchase of mining equipment	(3,540)	-
Purchase of mining properties	(40)	-
Increase in development costs	(943)	-
Purchase of exploration properties	(617)	(726)
Increase in restricted cash	(754)	-
	(5,894)	(726)
Financing activities		
Shares issued	5,340	901
Options exercised	393	3
Overseas Private Investment Corporation notes	2,800	-
Increase in deferred debt expense	(373)	-
Capital leases	145	-
Repayment of capital leases	(19)	-
	8,286	904
Effect of foreign exchange on cash and cash equivalents held in foreign currency	(77)	(2)
Increase (decrease) in cash and cash equivalents during the year	114	(333)
Cash and cash equivalents - Beginning of year	112	445
Cash and cash equivalents - End of year	226	112

Supplemental cash flow information (note 19)

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

(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

1 Nature of operations

The Company is a Canadian corporation, listed on the Toronto Stock Exchange (TSX). On July 1, 2004, the Company commenced commercial production at its Pimenton gold mine in Chile. The Company's principal exploration activities are being focused on a potential porphyry copper deposit located within the Pimenton area in which the Company holds mining claims. The Company also holds interests in two limestone deposits.

Prior to placing Pimenton into commercial production, all exploration and development costs relating to Pimenton had been capitalized. Upon commencing commercial production these capitalized costs were transferred to producing properties as described under "Exploration and development costs."

The recoverability of the amounts shown for exploration and development costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the projects and upon future profitable production or proceeds from the disposition thereof.

Going concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and discharge of obligations in the normal course of business as they come due. No adjustments have been made to assets or liabilities in these consolidated financial statements should the Company not be able to continue normal business operations.

As at September 30, 2004, the Company reported a deficit of approximately $42.9 million and continued to incur significant cash operating deficiencies. These conditions, together with the Company's limited cash resources as at September 30, 2004, cast significant doubt as to the ability of the Company to continue in business and to meet its obligations as they come due. Management has made modifications to the plant at Pimenton to increase its operating capacity and change its mining methods to increase the head grade of ore to the plant. Management expects that this will result in profitable operations. Nevertheless, there is no assurance that these initiatives will be successful.

The Company's continuance as a going concern is dependent on achieving profitable operations of its Pimenton gold mine. In the event that Pimenton does not generate sufficient cash, the assets may not be realized or the liabilities discharged at their carrying amounts, and these differences could be material.

2 Summary of significant accounting policies

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

(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

Significant policies are summarized as follows:

a) Basis of consolidation

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

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

b) Foreign currency translation and transactions

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

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

c) Exploration and development costs

Acquisition costs of resource properties, together with direct exploration and development expenses incurred thereon, are deferred and capitalized in the accounts when it is considered probable that their costs will be recovered from future operations. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to producing properties on the consolidated balance sheets and are amortized into operations using the units of production method (UOP) over the estimated useful lives of the estimated related ore reserves.

Based on annual impairment reviews made by management or earlier if circumstances warrant, in the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, such as would be indicated when:

Producing properties

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

(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

Exploration properties

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

then the carrying amount is written down accordingly and the writedown amount charged to operations.

d) Mining properties, plant and equipment

Upon reaching commercial production, costs capitalized as exploration and development expenditures are transferred to producing properties, which are classified as mining properties, plant and equipment.

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

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

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

e) Reclamation and remediation

The fair value of asset retirement obligations is recorded in mining properties, plant and equipment and liabilities in the year incurred. These obligations are associated with long-lived assets for which there is a legal obligation to settle under existing or enacted laws, statutes or contracts. In periods subsequent to initial measurement, these obligations are remeasured for the passage of time (using the interest rate method) and for changes to the timing or amount of the original estimates. The related assets are amortized using the UOP method.

f) Equipment

Equipment balances, other than equipment used in production, are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method based on the estimated useful life of the equipment ranging from 5 to 15 years. An impairment loss is recognized when the carrying amount of the equipment exceeds the estimated net future cash flows relating to the equipment. Such impairment loss recognized is calculated as the excess of the carrying amount over the fair value of the equipment.

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g) Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts and expenses during the reporting period. Actual results could differ from those estimates.

h) Revenue recognition

The Company recognizes revenue when the product has been delivered, the price is determined, title has transferred to the customer, and the collection of the sales price is reasonably assured. Credits from copper and silver contained in the concentrate are recorded as copper and silver revenue.

i) Stock-based compensation

The Company has a share option plan as discussed in (note 9(c)). During the year, the Company elected to prospectively record compensation expense when share options are issued to directors, officers or employees under the Company's share option plan based on the fair value of options granted. Consideration paid by optionees on exercise of an option is recorded in share capital. Share-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the date of issue. Historically, these rates have ranged from 30.00% - 50.00% and 2.35% - 4.75%, respectively.

j) Income taxes

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

k) Earnings and loss per share (EPS)

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

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l) Cash and cash equivalents and restricted cash

Cash and cash equivalents and restricted cash consist of cash and money market funds with original maturity dates of three months or less. The restricted cash components are presented separately on the consolidated balance sheets. The current portion of restricted cash is pledged as security for principal and interest payments due within one year.

m) Deferred debt expense

Deferred debt expense, representing loan origination costs and debt issue discounts, if any, are carried at cost less amortization, such amortization being provided over the terms of the related indebtedness.

3 Loss per share

	2004	2003
Weighted average number of shares outstanding - basic	356,774,255	248,163,122

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

4 Income taxes

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

	2004 $	2003 $
Loss before income taxes and non-controlling shareholders' interest in consolidated subsidiary's loss	3,650	1,348
Income tax recovery at Canadian federal and provincial statutory rates (2004 - 38.12%; 2003 - 40.12%)	1,391	541
Effect of expenses incurred in non-taxing jurisdictions	(136)	(65)
Effect of difference in regional income tax rates compared with Canadian rates	(449)	(100)
Expenses not deductible for income tax purposes	(3)	(51)
Expenses deductible for income tax purposes, but not for book purposes	39	30
Effect of losses incurred for book purposes, the income tax benefits of which have not been recognized in these financial statements	(842)	(355)
Effect of loss of tax basis in certain mining properties in Chile, resulting from loss of documentation referred to below	980	-
Provision for future income taxes	980	-

(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

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

	2004 **$**	**2003** **$**
Mining properties, plant and equipment and exploration properties	3,635	5,540
Non-capital losses carried forward	1,968	1,916
Net future income tax asset	5,603	7,456
Valuation allowance	(6,583)	(7,456)
Net future income tax liability	(980)	-

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-forwards and the tax basis in certain assets and liabilities will no longer be available to offset future income for tax purposes. To the extent that the Company cannot support the tax basis in certain assets and liabilities on the consolidated balance sheets, a future income tax liability has been recorded in the amount of $980,000. In addition, as a result of these events, $1,715,000 of assets for book purposes will no longer be available to offset future income for tax purposes.

Management is currently considering what actions can be taken, if any, to ameliorate the impact of the loss of documentation, but the outcome of such actions was not determinable at December 23, 2004.

As at September 30, 2004, the Company and its subsidiaries had available Canadian income tax loss carry-forwards of approximately $4.9 million that expire between 2005 and 2014, Chilean tax loss carry-forwards of approximately $0.5 million that can be carried forward indefinitely and U.S. tax loss carry-forwards of approximately $0.3 million that can be carried forward 20 years.

The Company has recorded a valuation allowance in the amount of approximately $6,583,000 as at September 30, 2004 (2003 - $7,456,000) because management believes that the future income tax assets are not more likely than not to be realized in the carry-forward period. The valuation allowance was increased during the year ended September 30, 2004 by $842,000 (2003 increased by $355,000), after giving effect to the loss of documentation referred to above in the amount of $1,715,000.

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

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

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5 Equipment

			2004
	Cost $	Accumulated amortization $	Net $
Office furniture and equipment	97	97	-
Vehicles	29	29	-
	126	126	-

			2003
	Cost $	Accumulated amortization $	Net $
Office furniture and equipment	98	81	17
Vehicles	30	18	12
	128	99	29

6 Mining properties, plant and equipment

				2004			2003
	Estimated useful life (in years)	Cost $	Accumulated amortization $	Net book value $	Cost $	Accumulated amortization $	Net book value $
Mining properties	UOP	3,946	256	3,690	3,906	-	3,906
Buildings and equipment	1-7	5,976	2,681	3,295	2,436	1,625	811
Mine development	UOP	7,449	431	7,018	6,720	-	6,720
Reclamation and remediation provision	UOP	706	45	661	-	-	-
Total		18,077	3,413	14,664	13,062	1,625	11,437

Historically, the Company has capitalized IVA (a Chilean value-added tax) taxes paid as part of its exploration properties. The Pimenton gold mine reached physical completion in May 2004 and commenced commercial production in July 2004. The sale of Pimenton production during its first year of operation will enable it to recover all of the IVA taxes paid by CM Pimenton. Accordingly, $620,000 of IVA taxes paid has been reclassified from mining properties, plant and equipment to recoverable taxes in current assets as of July 1, 2004 and is included in the $1,718,000 presented in the consolidated balance sheets.

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On July 1, 2004, the Pimenton gold mine commenced commercial production and costs accumulated under "Exploration properties" for the mine were transferred to mining properties, plant and equipment.

On November 29, 1996, the Company entered into an agreement to acquire the remaining 44% non-controlling interest in Pimenton, bringing its ownership interest to 100%. On November 29, 1996, Pimenton also purchased from Messrs. Thomson (an officer and director of the Company) and Bernstein two concessions adjoining its property for $4,000,000, of which $200,000 was paid on December 3, 1996. $1,800,000 was paid on January 7, 1997, and the remaining $2,000,000 was payable before May 29, 1998. This payable was initially recorded at its present value of $1,722,000 and was accreted to $1,976,000 to reflect accrued interest expenses as at September 30, 1999. Pimenton also agreed to pay to Messrs. Thomson and Bernstein a 5% net smelter royalty (6% if the price of gold is equal to or greater than $400 per ounce) on production from all Pimenton properties as currently constituted, commencing in June 1998. Under the agreement, failure to pay amounts due for the two concessions, provided the average price exceeds $299.99 per ounce, results in Messrs. Thomson's and Bernstein's being entitled to the return of the concessions and to reacquire, for nominal consideration, their combined 44% interest in Pimenton.

The Company did not pay the $2,000,000 on May 29, 1998. On August 19, 1998, the noteholders agreed to extend the due date from May 29, 1998 to December 31, 2000. In January 2000, the noteholders agreed to a further extension of the due date to December 31, 2005 and, under certain conditions, to December 31, 2007 in consideration of the issuance to each noteholder of a stock purchase warrant entitling them to purchase 3,000,000 common shares of the Company at CAN$0.51 per share. The total number of shares to be issued would be 6,000,000. Interest on the Pimenton notes is 5% per annum and payable only at the end of any 90-day consecutive period, and only for that period in which the price of gold trades above US$300 per ounce (note 11(b)).

On December 29, 2003, in connection with the issuance of the OPIC loan agreement, the Pimenton noteholders agreed to an additional extension of the due dates of the Pimenton notes until one year after the OPIC notes are repaid (note 11(b)).

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7 Exploration properties

	Catedral (a) $	**Cal Norte (b) $**	**Breccia (c) $**	**Chachas (d) $**	**Other (e) $**	**Total $**
Mining properties						
Balance as at September 30, 2002	1,066	51	-	-	-	1,117
Additional costs capitalized	-	1	-	-	3	4
Writedowns	-	-	-	-	-	-
Balance as at September 30, 2003	1,066	52	-	-	3	1,121
Additional costs capitalized	-	-	-	77	7	84
Writedowns	-	(1)	-	-	-	(1)
Balance as at September 30, 2004	1,066	51	-	77	10	1,204
Exploration costs						
Balance as at September 30, 2002	2,188	840	-	-	57	3,085
Additional costs capitalized	35	190	-	-	123	348
Writedowns	-	-	-	-	(136)	(136)
Balance as at September 30, 2003	2,223	1,030	-	-	44	3,297
Additional costs capitalized	33	85	382	9	159	668
Writedowns	-	-	-	-	(150)	(150)
Balance as at September 30, 2004	2,256	1,115	382	9	53	3,815
Summary - 2004						
Mining properties	1,066	51	-	77	10	1,204
Exploration costs	2,256	1,115	382	9	53	3,815
Total as at September 30, 2004	3,322	1,166	382	86	63	5,019
Summary - 2003						
Mining properties	1,066	52	-	-	3	1,121
Exploration costs	2,223	1,030	-	-	44	3,297
Total as at September 30, 2003	3,289	1,082	-	-	47	4,418

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a) Catedral

The Company owns 50.1% of the Catedral prospect through its subsidiaries Cathedral and CM Catedral, which encompasses two limestone deposits, Catedral and Rino, consisting of 69 concessions covering an area of 15,250 hectares just west of the border with Argentina. The deposits are hosted by the Los Valdes Formation, which stretches along a significant distance of the high Cordillera.

On another portion of the concession, an agreement was signed on January 25, 1995, in which CM Catedral must pay the owner of the concession up to $500,000 (indexed according to the United States Consumer Price Index-Base 1994), in the form of a $0.40 royalty per ton of minerals extracted with a minimum payment of $25,000 per year and the balance due five years after production commences. During 2000, the owner agreed to further amendments to this agreement. The owner was issued 1,824,815 common shares of the Company in exchange for the elimination of the annual royalty payment of $25,000 for five years. The balance due of $375,000 on January 25, 2006 was reduced to $150,000 and the payment date was extended to January 25, 2010. The owner has the option to receive payment in shares of the Company at a discount of 15% from the then market price per share, but not at a price less than CAN$0.20 per share. The Company can prepay the $150,000 at any time.

By an agreement dated November 27, 1996, Cathedral may lend at its discretion to CM Catedral up to $1,000,000 to enable it to explore and develop its properties. This amount includes all funds expended or committed before the transfer of the Catedral and Rino projects to CM Catedral. Funds in excess of $1,000,000 required by CM Catedral to keep its agreements in good standing will be funded by loans from Cathedral to the extent of 50.1%, and from Messrs. Hernandez and Thomson, both officers and directors of the Company, to the extent of 49.9% of such amount.

Also under the November 27, 1996 agreement, Cathedral agreed to provide or cause to provide to each of Messrs. Hernandez and Thomson, a further loan of up to $1,250,000 each or $2,500,000 in total (note 16). Such loans are to pay their proportionate share of development costs if a bankable feasibility study demonstrates that the properties can be placed into commercial production, and to fund their combined 50% share of an option payment totalling $500,000, which was paid during 1997.

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

The Company has entered into joint venture discussions with a global producer of lime and limestone products. The general scope of the joint venture would be to initially supply metallurgical grade lime to a Chilean mining company with multiple operations in Chile from a trading affiliate of the joint venture

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partner and subsequently establish Chilean-based production facilities using the Company's Catedral and Cal Norte properties.

During 2004, the Company continued its testing program on the Catedral deposit. Limestone samples were tested by CODELCO, the Chilean state-owned mining company and a potential purchaser of lime, with favourable results and it has asked the Company to supply samples of lime from Catedral to determine its suitability for use in CODELCO's plant processes.

b) Cal Norte

In July 1999, the Company entered into a formal agreement with Compañía Minera Quelon for the formation of Cal Norte. Under the agreement, the Company acquired a 60% interest in Cal Norte, consisting principally of exploration properties valued at $332,000. This acquisition was funded by the non-controlling interest. Other assets and liabilities of Cal Norte were insignificant. Compañía Minera Quelon contributed its mining equipment, related mine facilities and limestone deposits. The Quelon mining properties are located approximately 300 kilometers north of Santiago, Chile. The Company has agreed to fund up to $1,800,000 to Cal Norte as its contribution toward a project to develop a 150-tons-per-day lime manufacturing operation (note 16).

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

c) Breccia

During 2004, the Company completed a preliminary exploration program in the tourmaline breccia pipe zone located in the Hondo Valley, which lies adjacent and parallel to the Pimenton Valley, Chile. The preliminary program included geological, geophysical and geochemical work and a drilling program. The Company has initiated joint venture discussions with several companies which have expressed an interest in the porphyry copper potential of this prospect.

d) Chachas

The Company has renewed its activities on the Chachas gold prospect in Peru.

e) Other

During the years ended September 30, 2004 and 2003, approximately $150,000 and $136,000, respectively, in other exploration costs and mining properties were expensed.

(all tabular amounts are expressed in thousands of U.S. dollars, except number of shares and per share data)

8 Receivables - sundry

Receivables - sundry consist of:

	2004 $	2003 $
Sundry receivables	123	41
Receivable from an officer and director (note 17)	253	172
	376	213

9 Share capital

a) Authorized capital

On March 27, 2002, the shareholders authorized an increase of the capital of the Company to 500,000,000 common shares and on March 30, 2004, the shareholders authorized an additional increase of the capital of the Company to 850,000,000 common shares.

b) Issued and outstanding

	2004		2003	
	Shares	Amount $	Shares	Amount $
Outstanding - Beginning of year	265,304,162	51,292	237,238,373	50,073
Private placements (note i)	89,880,214	3,222	-	-
Warrants exercised (notes ii and vi)	11,910,538	918	24,142,569	1,015
Options exercised (notes iii and vii)	9,150,000	393	100,000	3
Note converted (notes iv and viii)	5,148,035	499	314,500	28
Compensation (notes v and ix)	8,250,000	583	3,508,720	173
Outstanding - End of year	389,642,949	56,907	265,304,162	51,292

i) During November 2003, the Company sold through a private placement 49,880,214 units at CAN$0.07 per unit, each unit comprised of one common share and one half of one common share purchase warrant to purchase a further common share at CAN$0.09 per share at any time within 24 months of the date of issue. The private placement closed in three tranches on November 10, 25 and 27, 2003. In connection with this private placement, the Company also issued 4,974,271 brokers warrants, each exercisable at CAN$0.09 per share, expiring 24 months from the date of issue. Net proceeds of the placement were $2,342,067, of which $334,505 was assigned to warrants and $66,716 was assigned to the brokers warrants, using the Black-Scholes valuation model.

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On December 10, 2003, the Company sold through a private placement 40,000,000 units at CAN$0.07875 per unit, each unit comprised of one common share and one common share purchase warrant to purchase a further common share at CAN$0.105 per common share at any time within 36 months of the date of issue. In connection with this private placement, the Company also issued 3,585,588 brokers warrants, each exercisable at CAN$0.105 per common share, expiring 36 months from the date of issue. Net proceeds of the placement were $2,137,064, of which $784,315 was assigned to warrants and $70,306 was assigned to the brokers warrants, using the Black-Scholes valuation model.

ii) During February 2004, participants in the February 12, 2002 private placement exercised 1,357,571 warrants at a price of CAN$0.055 per common share for net proceeds of $55,794. The $9,051 value assigned to these warrants was transferred to share capital.

During January, February and March 2004, participants in the March 28, 2002 private placement exercised 2,408,438 warrants at a price of CAN$0.08 per common share for net proceeds of $145,522. The value of $5,619 assigned to these warrants was transferred to share capital.

During January and February 2004, the holder of warrants issued on March 1, 2002 in consideration for a debenture holder waiving all interest payments earned by it, exercised 4,347,826 warrants at a price of CAN$0.115 per common share for net proceeds of $374,706. The value of $38,798 assigned to these warrants was transferred to share capital.

During January, February and March 2004, the holder of warrants issued on September 30, 2001 for consulting services, exercised 3,100,000 warrants at a price of CAN$0.10 per common share for net proceeds of $232,908. The value of $2,768 assigned to these warrants was transferred to share capital.

During March 2004, the holder of warrants issued for drilling services on September 30, 2001 exercised 696,800 warrants at a price of CAN$0.10 per common share for net proceeds of $52,000. The value of $702 assigned to the warrant was transferred to share capital.

iii) During January 2004, an officer and director of the Company exercised 3,000,000 options at a price of CAN$0.07 per common share and 5,000,000 options at a price of CAN$0.045 per common share for net proceeds of $331,152 (note 9(c)).

On June 16, 2004, an employee exercised 250,000 options at a price of CAN$0.045 per common share and 400,000 options at a price of CAN$0.09 per common share for net proceeds of $35,346 (note 9(c)).

On September 14, 2004, a director of the Company exercised 500,000 options at a price of CAN$0.07 per common share for net proceeds of $26,888 (note 9(c)).

iv) During December 2003 and January 2004, the promissory noteholder converted $454,904 of the note into 5,148,035 common shares. The value of $43,750 assigned to the convertible feature of the note was transferred from contributed surplus to share capital (notes 11(c) and 13(d)).

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v) On April 27, 2004, a consultant was issued 250,000 common shares in part settlement for terminating his consulting agreement. These shares were valued at CAN$0.10 per share, the closing price on the TSX, for a fair value of $18,526.

On September 27, 2004, the Board of Directors authorized the issuance of 8,000,000 bonus common shares and 8,000,000 options to acquire 8,000,000 common shares (note 9(c)) to an officer and director of the Company for personally guaranteeing 26% of the Overseas Private Investment Corporation (OPIC) loan until certain conditions are met. These shares were valued at CAN$0.090 per share, the closing price on the TSX on September 24, 2004, for a fair value of $564,437. The options were valued using the Black-Scholes valuation model for a fair value of $192,000, using a risk-free rate of 3.9% and a volatility factor of 30%.

vi) On January 20, 21 and 28, 2003, participants in the February 2002 private placement exercised 2,206,061 warrants at a price of CAN$0.055 per common share, for net proceeds of $72,178. A value of $14,709 was transferred from the initial value assigned to these warrants to share capital.

On January 28, 2003, a participant in the March 2002 private placement exercised 340,000 warrants at a price of CAN$0.080 per common share, for net proceeds of $17,835. A value of $3,475 was transferred from the initial value assigned to these warrants to share capital.

In connection with a private placement on April 6, 2001, the Company issued 728,471 brokers warrants, exercisable at CAN$0.0956 per common share and expiring on April 5, 2005. The warrants were assigned a value of $9,217. On June 4, 2003, the TSX approved a reduction of the exercise price from CAN$0.0956 to CAN$0.065 per common share for these brokers warrants, effective for the period from June 19, 2003 to June 29, 2003, after which the exercise price returned to CAN$0.0956 per common share. The warrants were revalued at $800. The excess of the original fair value over the revised fair value of $8,417 was transferred to deficit. The revalued warrants were subsequently exercised for net proceeds of $31,562. The $800 value assigned to the revalued warrants was transferred to share capital.

In connection with a private placement on June 20, 2001, the Company issued 480,000 brokers warrants exercisable at CAN$0.0956 per common share and expiring on June 20, 2006. The warrants were assigned a value of $590. On June 4, 2003, the TSX approved a reduction of the exercise price from CAN$0.0956 to CAN$0.065 per common share for these brokers warrants, effective for the period from June 19, 2003 to June 29, 2003, after which the exercise price returned to CAN$0.0956 per common share. The warrants were revalued at $1,332. The deficit of the original fair value under the revised fair value of $742 was transferred to deficit. The revalued warrants were subsequently exercised for net proceeds of $20,797. The $1,332 value assigned to the revalued warrants was transferred to share capital.

In connection with a private placement on March 28, 2002, the Company issued 12,000,000 warrants exercisable at CAN$0.080 per common share and expiring on March 28, 2004. The warrants were assigned a value of $122,661. On April 25, 2003, the TSX approved a reduction of the exercise price from CAN$0.080 to CAN$0.060 per common share for these warrants, effective for the period from May 30, 2003 to June 10, 2003, after which the exercise price returned to CAN$0.080 per common

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share. The warrants were revalued at $27,204. The excess of the original fair value of $119,185 of the remaining warrants over the revalued fair value of $27,204, totalling $91,981, was transferred to deficit. From June 3, 2003 to June 10, 2003, 7,501,669 of these revalued warrants were subsequently exercised for net proceeds of $287,931. The $17,502 value assigned to these warrants was transferred to share capital.

In addition, the exercise price for 2,050,000 brokers warrants issued in connection with this private placement was also reduced from CAN$0.080 to CAN$0.060 for the same year. The brokers warrants were revalued at $4,784. The excess of $20,956 of the original fair value over the revalued fair value of $4,784, totalling $16,172, was transferred to deficit. 2,050,000 of these revalued brokers warrants was subsequently exercised for net proceeds of $89,813. The $4,784 value assigned to these revalued brokers warrants was transferred to share capital.

During April 2003 and May 2003, participants in the February 12, 2002 private placement exercised 8,436,368 warrants at a price of CAN$0.055 per common share for net proceeds of $296,792. The $56,249 value assigned to these warrants was transferred to share capital.

In addition, 2,400,000 brokers warrants issued in connection with this private placement were exercised at a price of CAN$0.055 per common share for net proceeds of $83,897. The $16,002 value assigned to these warrants was transferred to share capital.

vii) On August 29, 2003, a director exercised an option for 100,000 common shares at CAN$0.05 per common share for net proceeds of $3,468.

viii) On January 22, 2003, the promissory noteholder converted CAN$36,168 of the note into 314,500 common shares at a price of CAN$0.115 per share, resulting in a reduction of $24,904 in the principal amount of the promissory note. In addition, $2,806 of the value initially assigned to the convertible feature of the note was transferred from contributed surplus to share capital upon conversion of the note (notes 11(c) and 13(a)).

ix) On February 4, 2003, the Board of Directors authorized the issuance of 2,250,000 common shares to an officer of the Company, pursuant to the terms of the Share Bonus Plan (note 9(c)), as compensation for services. These common shares were assigned a value of CAN$0.09 per common share, the TSX closing price on February 4, 2003, and $133,487 was charged to salary expense.

On August 7, 2003, the Board of Directors authorized the issuance of 1,258,720 common shares to an officer of the Company, pursuant to the terms of the Share Bonus Plan (note 9(c)), as compensation for services. These shares were assigned a value of CAN$0.045 per common share, the TSX closing price on August 7, 2003, and $40,012 was charged to salary expense.

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c) Share option plan

The Company's share option plan is dated March 31, 1994, and was approved by the shareholders on May 12, 1994.

On March 27, 2003, the shareholders approved a further amendment to the share option plan to:

i) increase the maximum number of common shares issuable under the share option plan from 36,500,000 common shares to 59,500,000 common shares; and

ii) increase the maximum number of common shares issuable to eligible participants under the Share Bonus Plan, within the share option plan, from 4,000,000 common shares to 5,000,000 common shares.

On March 30, 2004, the shareholders approved another amendment to the share option plan to:

i) increase the maximum number of common shares issuable under the share option plan from 59,500,000 common shares to 85,000,000 common shares; and

ii) increase the maximum number of common shares issuable to eligible participants under the Share Bonus Plan, within the share option plan, from 5,000,000 common shares to 15,000,000 common shares.

A summary of the Company's share option plan for the years ended September 30 is presented below:

		2004
	Number of options	**Weighted average exercise price CAN$**
Outstanding - Beginning of year	44,235,000	0.08
Changes during the year		
Granted (note 9(b)(v))	8,000,000	0.09
Exercised	(9,150,000)	0.06
Expired	-	-
Outstanding - End of year	43,085,000	0.06
Exercisable - End of year	40,960,000	

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	2003	
	Number of options	**Weighted average exercise price CAN$**
Outstanding - Beginning of year	19,870,000	0.07
Changes during the year		
Granted	28,735,000	0.08
Exercised	(100,000)	0.05
Expired	(4,270,000)	0.08
Outstanding - End of year	44,235,000	0.08
Exercisable - End of year	40,985,000	

Options outstanding as at September 30:

2004				
Exercise price $	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price CAN$**	**Options exercisable**
0.075	3,500,000	0.15	0.075	3,500,000
0.050	500,000	2.18	0.050	500,000
0.070	8,000,000	2.34	0.070	7,375,000
0.090	22,350,000	8.51	0.090	20,850,000
0.045	275,000	5.85	0.045	275,000
0.060	240,000	3.92	0.060	240,000
0.065	220,000	3.96	0.065	220,000
0.090	8,000,000	4.99	0.090	8,000,000
	43,085,000	5.89	0.087	40,960,000

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				2003
Exercise price $	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price CAN$**	**Options exercisable**
0.045	5,525,000	6.86	0.045	5,525,000
0.050	500,000	3.18	0.050	500,000
0.060	240,000	4.92	0.060	240,000
0.065	220,000	4.96	0.065	220,000
0.070	11,500,000	3.35	0.070	10,250,000
0.075	3,500,000	1.15	0.075	3,500,000
0.090	22,750,000	9.51	0.090	20,750,000
	44,235,000	6.80	0.077	40,985,000

The exercise price of each option is generally the closing price of the Company's stock on the TSX on the business day preceding the date on which the option is granted.

Effective October 1, 2003, the Company elected to record the fair value of options issued to directors, officers and employees issued under the share option plan as compensation expense.

Prior to 2004, the Company followed the intrinsic value method in accounting for share options issued to employees. Accordingly, no compensation expense was recognized for share options issued. If the Company had followed the fair value method of accounting, the Company would have recorded additional compensation expense totalling $363,000 for the year ended September 30, 2003.

The pro forma loss for 2003 and basic and diluted loss per share, had the Company followed the fair value method, is indicated below:

	2003 $
Loss for the year	1,341
Compensation expense	363
Pro forma loss for the year	1,704
Basic and diluted loss per share	
As reported	0.01
Pro forma	0.01

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The fair values of the options were estimated using the Black-Scholes valuation model with the following assumptions:

	2004 **%**	**2003** **%**
Risk-free rate	3.97	3.58 - 4.75
Dividend yield	-	-
Volatility factor	30	50
Weighted average expected life	5.0 years	8.90 years

10 Provisions and other

The balance as at September 30 is as follows:

	2004 **$**	**2003** **$**
Accrual for mine services	251	-
Vacations	45	-
Duties payable	28	106
Taxes payable	203	152
Royalties payable	45	-
Cash advanced for private placement (note 17)	84	-
Interest payable	-	10
Other	172	55
	828	323

11 Long-term debt

			2004	**2003**
Date	**Description**	**Interest rate**	**Principal** **$**	**Principal** **$**
January 30, 2004	OPIC note, due December 15, 2008	8.27%	1,200	-
May 25, 2004	OPIC note, due December 15, 2008	8.39%	1,600	-
November 29, 1996	Pimenton notes, due December 15, 2009	5.00% under certain conditions (note 6)	1,098	1,458
March 1, 2002	Promissory note, due December 31, 2004	5.00%	-	384
	Capital leases		126	-
Total			4,024	1,842
Less: Current portion			691	-
Long-term debt			3,333	1,842

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Interest paid by the Company was $204,000 and $61,000 for the years ended September 30, 2004 and 2003, respectively.

The maturities of long-term debt, minimum payments under capital leases and related interest payments are as follows:

	Long-term debt $	Capital leases $	Total $
Fiscal year ended September 30,			
2005	816	72	888
2006	765	58	823
2007	713	-	713
2008	661	-	661
2009	312	-	312
2010 and thereafter	1,944	-	1,944
Total	5,211	130	5,341
Less: Accretion and interest	1,313	4	1,317
	3,898	126	4,024

a) On March 20, 2003, CM Pimenton, a subsidiary of the Company, filed a loan application with OPIC, headquartered in Washington, DC, to finance part of the estimated $4,000,000 required to restart operations at Pimenton. Following receipt of the report by Pincock, Allen & Holt, a mining engineering consulting firm, and further due diligence by OPIC, CM Pimenton entered into a loan commitment agreement dated October 29, 2003 and, on December 29, 2003, signed a loan agreement for $2,800,000 for project financing.

Under the terms of the loan agreement, the Company is required, among other things, to establish an equity reserve account in lieu of a construction and completion bond and a debt service reserve account. Accordingly, cash in the amounts of $754,000 and $429,000 has been designated as restricted on the consolidated balance sheets.

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

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

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

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June 15, 2004. Semi-annual principal payments of $133,333 are also due on June 15 and December 15, commencing on December 15, 2004.

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

Loan origination expenses associated with the OPIC loan were charged to deferred debt expense on the consolidated balance sheets.

The loan contains covenants, including a financial covenant requiring CM Pimenton to maintain a working capital ratio of not less than 1.25. In addition, CM Pimenton's indebtedness is limited to the (a) loan, (b) indebtedness fully subordinated to the loan under the loan agreement, (c) trade credit incurred in the ordinary course of business not to exceed $600,000 requiring payment within 90 days, (d) unsecured short-term credit facilities not to exceed $600,000 from commercial banks requiring repayment within 180 days, (e) intercompany debt and (f) unsecured indebtedness, which will not cause CM Pimenton to fail the working capital ratio requirement.

As at September 30, 2004, CM Pimenton was in compliance with financial covenants, except that the working capital ratio was less than the requirement of 1.25 and the trade credit exceeded the $600,000 limit.

The loan agreement also contains operational covenants, including among other things, achievement of minimum exploration drifting, minimum reserve development and minimum production levels. As at September 30, 2004, the Company did not achieve these minimum production covenants.

OPIC has granted a waiver with respect to such financial and operational covenants until September 30, 2005.

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

In January 2000, because of the requirement of a potential noteholder to the Company's Cal Norte project, the noteholders of the $2,000,000 notes agreed to a further extension of the due date to December 31, 2005, and, under certain conditions, to December 31, 2007. In consideration for such extension, the Company issued to each of the noteholders a warrant entitling each noteholder to purchase 3,000,000 common shares of the Company at CAN$0.51 per share. The total number of common shares to be issued would be 6,000,000. Interest on the Pimenton notes is 5% per annum, commencing on January 1, 2000, payable only at the end of any 90-day consecutive period, and only for that period in which the price of gold trades above US$300 per ounce (note 6).

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The Pimenton notes and warrants were recorded at their fair market values of $620,000 and $7,500, respectively. The fair value of the Pimenton notes was determined using a quarterly risk rate of return of 5%. This refinancing resulted in a gain of $1,348,000.

During the year ended September 30, 2002, the noteholders exercised 900,000 warrants for CAN$90,000 or $56,439. The warrant proceeds were applied to reduce the principal and face amount of the outstanding notes payable.

On December 29, 2003, in connection with the issuance of the OPIC loan agreement, the Pimenton noteholders agreed to an additional extensions of the due dates of the Pimenton notes until one year after the OPIC notes are repaid. Treated as a settlement for accounting purposes, these notes were revalued to $976,187. The fair value of these notes was determined using a quarterly risk rate of return of 5%. This refinancing resulted in a gain of $542,805 (note 6).

Prior to revaluation, the Pimenton notes were accreted to $1,518,992 as at December 31, 2003, with $60,653 being charged to expense. After revaluation to $976,187, these notes were accreted to $1,097,920 as at September 30, 2004, with $121,733 being charged to interest expense for the year then ended. Therefore, accretion expense for the year was $182,386 (2003 - $242,612). By December 15, 2009, the carrying value of the notes will have been accreted to $1,943,561, the face amount due upon maturity.

The consolidated debt includes the Pimenton notes, which are not guaranteed by the Company.

c) During fiscal 2000, the Company issued a unit consisting of (a) a promissory note in a principal amount of CAN$600,000 ($412,000), maturing on December 31, 2001, bearing no interest until maturity, but, thereafter, if there is a default, at the rate of 10% per annum accruing from March 13, 2000 and (b) a share purchase warrant entitling the holder to purchase 1,818,182 common shares of the Company on or before March 31, 2005, at CAN$0.165 per share.

Accrued and unpaid interest on the promissory note amounted to $73,912 as at February 28, 2002. Subsequent to March 31, 2002, the accrued and unpaid interest on the original promissory note was paid by the issuance of 1,366,516 common shares of the Company.

On March 1, 2002, the Company issued a new promissory note in a principal amount of CAN$600,000 ($378,000) with a maturity date of December 31, 2004, interest payable at 5% per annum commencing on March 1, 2002, and 5,217,391 warrants in payment of the original promissory note. This promissory note is convertible into shares of the Company at a conversion price of CAN$0.115 per common share and has been recorded at its fair value of $260,634, using an annual risk rate of return of 20%. The fair value of the convertible feature of this note was $46,557 using the Black-Scholes valuation model and was credited to contributed surplus.

The warrants are exercisable at CAN$0.115 per common share, expire on December 31, 2004, and are valued at $46,557 using the Black-Scholes valuation model.

This refinancing resulted in a loss of $23,472 in 2002.

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On January 22, 2003, the promissory noteholder converted CAN$36,168 of the note into 314,500 common shares at a price of CAN$0.115 per share, resulting in a reduction of $24,904 in the principal amount of the promissory note. In addition, $2,806 of the value initially assigned to the convertible feature of the note was transferred from contributed surplus to share capital upon conversion of the note (notes 9(b)(viii) and 13(a)).

The promissory note contains covenants, including a financial covenant, requiring the maintenance of a minimum working capital of $100,000, and its borrowing capacity is limited to its current debt, obligations under leases or as specifically permitted under the agreement.

During 2003, the Company did not meet all the covenants of this promissory note and the lender granted the Company a waiver with respect to such covenants, including the maintenance of a minimum working capital requirement and the payment of interest on the Pimenton notes until April 30, 2004. In addition, any interest due under this promissory note through February 28, 2003 will become part of then note's principal and the conversion price of CAN$0.115 per common share will be renegotiated subject to TSX approval.

The discussions to renegotiate the conversion price of the promissory note were not successful and, on October 31, 2003, the note was amended to add interest due through February 28, 2003, to the principal, and expressly confirmed that all other provisions of the note shall continue in full force and effect. On December 9, 11 and 16, 2003 and January 12, 2004, the promissory noteholder converted the balance of the note into 5,148,035 common shares. The promissory note increased to $454,904 at the time of conversion due to accretion of $71,068 being charged to interest expense.

In addition, $43,750 of the value initially assigned to the convertible feature of the note was transferred from contributed surplus to share capital upon conversion (note 9(b)(iv)).

The promissory note increased to $383,836 as at September 30, 2003, due to accretion of $44,959 being charged to interest expense, a foreign exchange loss of $45,356 and interest of $19,078, less $24,904 of principal converted to common shares.

12 Warrants

	Number of warrants issued	**$**
September 30, 2002	59,653,398	485
Exercise of warrants (note 9(b)(vi))	(2,206,061)	(15)
Exercise of warrants (note 9(b)(vi))	(340,000)	(4)
Revaluation of warrants (a)	-	(92)
Revaluation of warrants (b)	-	(16)
Exercise of warrants (note 9(b)(vi))	(8,436,368)	(56)
Exercise of warrants (note 9(b)(vi))	(2,400,000)	(16)
Revaluation of warrants (note 9(b)(vi))	-	(8)
Revaluation of warrants (note 9(b)(vi))	-	1
Exercise of warrants (note 9(b)(vi))	(728,471)	(1)

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	Number of warrants issued	**$**
Exercise of warrants (note 9(b)(vi))	(480,000)	(1)
Exercise of warrants (note 9(b)(vi))	(7,501,669)	(18)
Exercise of warrants (note 9(b)(vi))	(2,050,000)	(5)
Warrants expired (c)	(4,141,521)	(18)
September 30, 2003	31,369,308	236
Warrants issued (note 9(b)(i))	24,940,107	335
Warrants issued (note 9(b)(i))	4,974,271	67
Cancellation of warrants (d)	(6,000,000)	(7)
Warrants issued (note 9(b)(i))	40,000,000	784
Warrants issued (note 9(b)(i))	3,585,588	70
Exercise of warrants (note 9(b)(ii))	(4,347,826)	(39)
Exercise of warrants (note 9(b)(ii))	(3,100,000)	(3)
Exercise of warrants (note 9(b)(ii))	(1,357,571)	(9)
Exercise of warrants (note 9(b)(ii))	(2,408,438)	(6)
Exercise of warrants (note 9(b)(ii))	(696,800)	(1)
Warrants issued (e)	500,000	5
Warrants issued (f)	500,000	5
Warrants issued (g)	500,000	5
Warrants issued (h)	400,000	4
Warrants issued (i)	3,000,000	18
Warrants issued (j)	3,000,000	18
Warrants expired (k)	(10,770,926)	(38)
September 30, 2004	84,087,713	1,444

a) The warrants issued in connection with the March 28, 2002 private placement were revalued. The warrants were assigned a value of $122,661. On April 23, 2003, the TSX approved a reduction of the exercise price from CAN$0.080 to CAN$0.060 per common share for these warrants, effective for the period from May 30, 2003 to June 10, 2003, after which the exercise price returned to CAN$0.080 per common share. The warrants were revalued at $27,304. The excess of the remaining original fair value ($119,185) over the revalued amount of $91,982 was transferred to deficit (note 9(b)(ii)).

b) The brokers warrants issued in connection with the March 2, 2002 private placement were revalued. The exercise price for 2,050,000 brokers warrants issued in connection with this private placement was also reduced from CAN$0.080 to CAN$0.060 per common share for the same year. The brokers warrants were revalued at $4,783. The excess of the remaining original fair value ($20,955) over the revalued amount of $16,172 was transferred to deficit.

c) Warrants expired during 2003 were valued at $18,000.

d) On December 9, 2003, David Thomson (an officer and director of the Company) and Merwin Bernstein cancelled 6,000,000 common share purchase warrants without monetary compensation, which were issued in 2000 and had an exercise price of CAN$0.51 per common share. Subject to TSX approval, the

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Company stated it would issue replacement common share purchase warrants having an exercise price of CAN$0.25 per common share and an expiry date of 24 months following the date on which the loan from OPIC is repaid in full by CM Pimenton (notes 12(i) and (j)).

e) G. W. Bossard was issued 500,000 warrants in connection with a severance arrangement at an exercise price of CAN$0.095 per common share, expiring on June 3, 2006, using the Black-Scholes valuation model, at a risk-free rate of 3.02% and a volatility factor of 30%.

f) G. W. Bossard was issued 500,000 warrants in connection with a severance arrangement at an exercise price of CAN$0.095 per common share, expiring on April 27, 2006, using the Black-Scholes valuation model, at a risk-free rate of 2.94% and a volatility factor of 30%.

g) Douglas J. Newby was issued 500,000 warrants in connection with a consulting arrangement at an exercise price of CAN$0.095 per common share, expiring on June 3, 2006, using the Black-Scholes valuation model, at a risk-free rate of 3.02% and a volatility factor of 30%.

h) Richard Robin was issued 400,000 warrants in connection with a consulting arrangement at an exercise price of CAN$0.10 per common share, expiring on June 1, 2006, using the Black-Scholes valuation model, at a risk-free rate of 3.02% and a volatility factor of 30%.

i) David Thomson was issued 3,000,000 warrants in consideration for cancelling previous warrants, at an exercise price CAN$0.25 per common share, expiring on December 15, 2010, using the Black-Scholes valuation model, at a risk-free rate of 3.02% and a volatility factor of 30% (note 12(d)).

j) Merwin Bernstein was issued 3,000,000 warrants in consideration for cancelling previous warrants, at an exercise price CAN$0.25 per common share, expiring on December 15, 2010, using the Black-Scholes valuation model, risk free-rate of 3.02% and a volatility factor of 30% (note 12(d)).

k) Warrants expired during 2004 were valued at $38,000 (note 13(e)).

The following table summarizes information about the warrants outstanding as at September 30, 2004:

Number of warrants outstanding	**Weighted average remaining warrant life (years)**	**Weighted average exercise price CAN $**
2,687,747	0.42	0.149
31,814,378	1.18	0.090
43,585,588	2.19	0.105
6,000,000	6.21	0.250
84,087,713		

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13 Contributed surplus

	$
Balance - September 30, 2002	300
Convertible note (a)	(3)
Warrants expired (b)	18
Balance - September 30, 2003	315
Cancellation of warrants (c)	7
Convertible note (d)	(44)
Warrants expired (e)	38
Balance - September 30, 2004	316

a) Upon conversion of the promissory note into common shares referred to in note 9(b)(viii), $2,806 of the value initially assigned to the convertible feature of the promissory note was transferred from contributed surplus.

b) Warrants expired during 2003 (note 12(c))

c) Cancellation of Pimenton warrants (note 12(d))

d) Upon conversion of the promissory note into common shares referred to in note 11(c), $43,750 of the value initially assigned to the convertible feature of the promissory note was transferred from contributed surplus (notes 9(b)(iv)).

e) Warrants expired during 2004 (note 12(k))

14 Reclamation and remediation

The Company's mining and exploration activities are subject to various Chilean laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are becoming more restrictive. The Company conducts its operations in such a way as to protect the environment and believes its operations are in compliance with all applicable laws and regulations. Management has estimated that the present value of the asset retirement obligation, based on Chilean laws and regulations was $706,000 as at September 30, 2004 (2003 - $nil) using a credit-adjusted risk-free discount factor of 15%.

The fair value of asset retirement obligations is recorded in the year incurred. Retirement obligations are associated with long-lived assets for which there is a legal obligation to settle under an existing or enacted law or statute or written or oral contract.

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15 Segmented information

Substantially all of the Company's assets and revenues are located in Chile. Historically, the Company's management has viewed the exploration and development activities of the Company in Chile as one segment. On July 1, 2004, the Pimenton gold mine became operational and, effective on that date, management's approach has been to view the Company's operations as two reportable segments: (a) Pimenton and (b) Exploration and Development. The prior year's amounts have been restated to conform with the current year's consolidated financial statement presentation.

The Company's Pimenton segment includes a gold mine and mill operating in Chile. All of Pimenton's production is sold to Enami, a subsidiary of CODELCO, the Chilean state-owned mining company. Enami was established to promote the growth of small- and medium-sized mining companies and is required to purchase production from such companies. The Exploration and Development segment includes all exploration and development activities primarily in Chile.

			2004
	Pimenton **$**	**Exploration and Development** **$**	**Total** **$**
Gold revenue	(799)	-	(799)
Copper and silver revenue	(139)	-	(139)
Cost of sales	938	-	938
Amortization	1,390	-	1,390
Writeoff of exploration properties	-	150	150
General and administrative	348	988	1,336
Stock-based compensation	-	772	772
Foreign exchange	-	(41)	(41)
Interest expense	522	70	592
	2,260	1,939	4,199
Gain on refinancing	(543)	-	(543)
Interest income	-	(6)	(6)
Future income tax expense	980	-	980
Non-controlling shareholders' interest	-	18	18
Loss for the year	2,697	1,951	4,648

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			2003
	Pimenton **$**	**Exploration and Development** **$**	**Total** **$**
Amortization	-	10	10
Writeoff of exploration properties	-	136	136
General and administrative	469	348	817
Foreign exchange	(144)	121	(23)
Interest expense	341	67	408
	666	682	1,348
Non-controlling shareholders' interest	-	(7)	(7)
Loss for the year	666	675	1,341

Of the Exploration and Development segment's loss of $1,951,000 in 2004, approximately $226,000 relates to Chilean activities, with the remainder reflecting primarily corporate activities in Canada, United States and Bermuda.

Of the Exploration and Development segment's loss of $675,000 in 2003, approximately $192,000 relates to the Chilean activities, with the remainder reflecting primarily corporate activities in Canada and Bermuda.

16 Commitments

Project	**Description**	**Total potential commitment** **$**	**Paid to date** **$**
Catedral and Rino	a loan for development costs (note 7(a))	up to 2,500	250
	to the owner of another section of the property - $275,000 issuance of 1,824,815 common shares of the Company valued at $125,000, and the balance of $150,000 due on January 25, 2010, payable at owner's option in the Company's shares issued at a 15% discount from the market value at that date, but not less than CAN$0.20 per common share; the Company can prepay this amount at any time	275	125
Cal Norte	capital contribution of $1,800,000 to earn 60% equity interest (note 7(b))	1,800	1,189

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No amounts have been provided in these accounts in the event that the Company should sustain a loss upon the ultimate resolution of these matters. Any loss will be recorded in the consolidated statements of operations and deficit prospectively in the year in which the matters are resolved.

17 Related party transactions

A company owned by an officer, a director and a shareholder of the Company billed $81,000 in 2004 (2003 - $87,000) for the provision of office space and services by the company.

A law firm, of which an officer is a member, billed $111,000 in 2004 (2003 - $51,000) for the provision of legal services. These services were provided at rates similar to those charged to non-related parties.

Sundry receivables include non-interest bearing advances to an officer and a director of the Company of $252,839 and $171,871 as at September 30, 2004 and 2003, respectively. These advances are due on demand and are non-interest bearing.

An officer of the Company billed $87,000 for accounting services rendered to the Company in 2004 (2003 - $48,000).

Accounts payable and accrued liabilities include $12,247 and $70,591 as at September 30, 2004 and 2003, respectively, for interest due to an officer and director of the Company who holds one of the Pimenton notes in the amount of $548,000. An officer and director of the Company are the owners of a net smelter royalty on the Pimenton gold mine.

Provisions and other include $45,017 in royalties payable to this officer and director as at September 30, 2004 (2003 - $nil) (note 10).

Accounts payable and accrued liabilities also include a cash advance of $41,189 from an officer and director and cash advances to participate in the private placement of $84,000 from another officer and director.

Two officers and directors of the Company hold the non-controlling shareholders' interest in Catedral (note 7(a)).

18 Financial instruments

The Company's financial instruments consist of cash and cash equivalents, other current assets, accounts payable and accrued liabilities, other current liabilities and notes payable, carried at historical cost. The fair values of the short-term financial assets and liabilities, notes payable and debentures approximate their carrying amounts because of the short period to receipt or payment of cash. It is not practicably possible, within the constraints of cost and limited market for such instruments, to determine the current fair values of notes payable.

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The Company's operations expose it to significant fluctuations in foreign exchange rates. The Company's promissory note and accrued interest thereon are denominated in Canadian dollars and are, therefore, subject to exchange rate variations against the Company's reporting currency, the U.S. dollar.

The Company does not use financial instruments to mitigate the risk of currency fluctuation for assets and liabilities that are denominated in currencies other than the U.S. dollar.

19 Supplemental cash flow information

	2004 $	2003 $
Changes in non-cash working capital relating to operations		
Restricted cash	(429)	-
Receivables		
Trade	(168)	-
Sundry	(163)	(115)
Recoverable taxes	(1,098)	-
Materials and supplies	(118)	-
Accounts payable and accrued liabilities, excluding interest in accrued liabilities	848	(70)
Provisions and other	505	320
	(623)	135
Significant non-cash financing and investing activities		
Long-term debt converted to share capital (note 11(c))	455	25
Warrants converted to share capital (note 12)	57	115
Contributed surplus (note 13)	3	15
Warrants expired or cancelled (note 12)	(47)	-
Warrants issued (note 12)	56	-
Other information		
Income taxes paid	-	-
Interest paid	204	61

20 Comparative amounts

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

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21 Subsequent event

On October 21, 2004, the Company sold through a private placement 40,000,000 units at CAN$0.07 per unit, each unit consisting of one common share and one half of one common share to purchase a further common share at CAN$0.09 per share at any time within 24 months of date of issue. In addition, 3,000,000 common shares were sold at CAN$0.07 per common share, of which 1,847,000 common shares were purchased by an officer and director of the Company. In connection with this private placement, the Company also issued 4,300,000 brokers warrants, exercisable at CAN$0.07 per share, expiring 48 months from the date of issue. Net proceeds of the placement were $2,158,541, of which $276,806 was assigned to the fair value of the warrants and $123,131 was assigned to the fair value of the brokers warrants, using the Black-Scholes valuation model assuming risk-free rates of 2.96% and 3.62%, respectively, and a volatility factor of 30%.