South American Gold and Copper Company Limited

Consolidated Financial Statements
September 30, 2005 and 2004
(expressed in thousands of U.S. dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

Management is responsible for the preparation of the consolidated financial statements and believes that they fairly represent the Company's financial position and the results of its operations, in accordance with Canadian generally accepted accounting principles. Management has included amounts in the Company's consolidated financial statements based on estimates, judgments, and policies that it believes reasonable under the circumstances.

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

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

(signed) "Stephen W. Houghton"

Stephen W. Houghton
President and
Chief Executive Officer

(signed) "William C. O'Donnell"

William C. O'Donnell
Executive Vice President
and Chief Financial Officer

Halifax, Nova Scotia
January 6, 2006

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January 6, 2006

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, 2005 and 2004 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

South American Gold and Copper Company Limited

Consolidated Balance Sheets

As at September 30, 2005 and 2004

(expressed in thousands of U.S. dollars)

	2005 $	2004 $
Assets		
Current assets		
Cash and cash equivalents	50	226
Restricted cash (note 11(a))	440	429
Receivables		
Trade	3	168
Sundry (notes 8)	219	376
Recoverable taxes (note 6)	357	1,718
Material and supplies, at cost	103	118
	1,172	3,035
Note receivable from an officer and director (note 17)	286	-
Equipment (note 5)	12	-
Mining properties, plant and equipment (note 6)	13,486	14,664
Exploration properties (note 7)	5,199	5,019
Restricted cash (note 11(a))	-	754
Recoverable taxes (note 6)	1,826	-
Deferred debt expense (note 11(a))	335	389
Total assets	22,316	23,861

Pledged assets (note 11(a))

Going concern and nature of operations (note 1)

Commitments (note 16)

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

South American Gold and Copper Company Limited
Consolidated Balance Sheets ...*continued*
As at September 30, 2005 and 2004

(expressed in thousands of U.S. dollars)

	2005 $	2004 $
Liabilities		
Current liabilities		
Short term borrowings (note 19)	232	-
Current portion of long-term debt (note 11)	724	691
Accounts payable and accrued liabilities (note 10)	2,879	1,634
Taxes payable (IVA)	368	203
Amounts due to related parties (note 17)	884	195
	5,087	2,723
Long-term debt (note 11)	2,868	3,333
Future income taxes (note 4)	-	980
Reclamation and remediation (note 14)	778	706
Non-controlling shareholders' interest in consolidated subsidiary	141	154
Total liabilities	8,874	7,896
Shareholders' equity		
Share capital (note 9(b))	58,688	56,907
Contributed surplus (note 13)	451	316
Options (note 9(c))	680	192
Warrants (note 12)	1,712	1,444
Deficit	(48,089)	(42,894)
Total shareholders' equity	13,442	15,965
Total liabilities and shareholders' equity	22,316	23,861

Going concern and nature of operations (note 1)

Commitments (note 16)

Approved by the Board of Directors

"Paul J. DesLauriers"	**"Stephen W. Houghton"**
Chairman	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, 2005 and 2004

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

	2005 $	2004 $
Revenue		
Gold	1,877	799
Copper and silver	438	139
	2,315	938
Expenses		
Operating costs	2,796	938
Amortization	1,868	1,390
Temporary mine shutdown (notes 1 and 6)	1,072	-
Writedown of exploration properties (note 7)	-	150
General and administrative	1,851	1,333
Stock-based compensation (notes 9(b)(vi), 9(c)(i) and 9(b)(vii))	513	775
Foreign exchange gain	(85)	(41)
Interest on long-term indebtedness	612	592
	8,627	5,137
Loss before undernoted	6,312	4,199
Gain on refinancing (note 11(b))	-	(543)
Other income	(101)	-
Interest income	(23)	(6)
Loss before income taxes and non-controlling shareholders' interest in consolidated subsidiary's (loss) income	6,188	3,650
(Recovery of) provision for future income taxes (note 4)	(980)	980
Non-controlling shareholders' interest in consolidated subsidiary's (loss) income	(13)	18
Loss for the year	5,195	4,648
Deficit - Beginning of year	42,894	38,210
Loss (gain) on warrant valuations (note 12(a))	-	36
Deficit - End of year	48,089	42,894
Basic and diluted loss per share (note 3)	0.01	0.01

Going concern and nature of operations (note 1)

Commitments (note 16)

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, 2005 and 2004

(expressed in thousands of U.S. dollars)

	2005 $	2004 $
Cash provided by (used in)		
Operating activities		
Loss for the year	(5,195)	(4,648)
Non-cash items		
(Recovery of) provision for future income taxes	(980)	980
Writedown of exploration properties	-	150
Amortization	1,868	1,390
Gain on refinancing	-	(543)
Accretion of interest on notes payable and amortization of deferred debt expense	258	322
Foreign exchange gain	(85)	(41)
Non-controlling shareholders' interest in consolidated subsidiary's (loss) income	(13)	18
Non-cash employee share compensation	22	564
Non-cash non-employee share compensation	-	19
Non-cash employee options	491	192
Non-cash non-employee warrants	-	19
	(3,634)	(1,578)
Changes in non-cash working capital relating to operations (note 19)	1,334	(235)
	(2,300)	(1,813)
Investing activities		
Additions to mining equipment	(640)	(3,540)
Additions to mining properties	(23)	(40)
Additions to development costs	(26)	(943)
Additions to exploration properties	(180)	(617)
Additions to equipment	(30)	-
Decrease (increase) in restricted cash	743	(1,183)
Sale of assets	89	-
	(67)	(6,323)
Financing activities		
Shares issued	2,159	5,340
Options exercised	-	393
Overseas Private Investment Corporation notes	-	2,800
Increase in deferred debt expense	(42)	(373)
Capital leases	98	145
Repayment of capital leases	(69)	(19)
Repayment of debt	(622)	-
Advances from directors and officers	635	41
	2,159	8,327
Effect of foreign exchange on cash and cash equivalents held in foreign currency	32	(77)
Increase (decrease) in cash and cash equivalents during the year	(176)	114
Cash and cash equivalents - Beginning of year	226	112
Cash and cash equivalents - End of year	50	226

Supplemental cash flow information (note 20)
Going concern and nature of operations (note 1)
Commitments (note 16)

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. 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 the carrying value of the assets or liabilities, the reported revenues and expenses or the balance sheet classifications used in these consolidated financial statements should the Company not be able to continue normal business operations.

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 extreme avalanche danger at the Company's Pimenton mine (Pimenton) 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 main portal entrance was damaged causing a shutdown of the mine and it has remained closed since that time. Pimenton declared "force majeure" under Chilean law with respect to salary payments and other benefits payable under 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 payment of all trade payables and amounts due under lease purchase or other contracted services. The mine is expected to resume operations in late 2006.

As at September 30, 2005, the Company reported a deficit of approximately $48.1 million and a working capital deficiency of $3.9 million, and continues to incur significant cash outflows. These conditions, together with the mine shutdown, cast significant doubt as to the ability of the Company to continue as a going concern.

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

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, those capitalized costs were transferred to producing properties as described under "Exploration and development costs" (note 2(c)).

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.

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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).

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 (the Company or SAGC) and its subsidiaries:

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

b) Foreign currency translation and transactions

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

Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet dates. Non-monetary assets and liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year, with the exception of amortization, which is translated at the historic rate of the related asset. Translation gains and losses are reflected on the consolidated statements of operations 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. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to mining properties, plant and equipment on the consolidated balance sheet and are amortized into operations using the units of production method (UOP) over the estimated useful lives of the estimated ore reserve.

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 mineral reserves and mineral resources;

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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 write-down to its fair value amount is charged to operations.

d) 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 mineral reserves and mineral resources.

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 mineral reserves and mineral resources. These costs include building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

An impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds the estimated 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

In accordance with the Canadian Institute of Chartered Accountants standards for asset retirement obligations, asset retirement obligations are recorded in mining properties, plant and equipment and in liabilities at fair value when incurred. The liability is accreted over time through periodic charges to earnings. The amount of the liability is subject to re-measurement at each reporting period. These obligations are associated with long-lived assets for which there are a legal obligation to settle under existing or enacting laws, statutes or contracts. The related assets are amortized using the UOP method.

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

f) Equipment

Equipment, other than equipment used in production, is 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. Such estimates include useful lives for amortization, reclamation and environmental obligations, deferred taxes and valuation allowances, future cash flows from assets and proven and probable reserves. Actual results could differ from these 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)). In 2004, 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.

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.

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

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

m) Deferred debt expense

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

3. Loss per share

	2005	2004
Weighted average number of shares outstanding – basic	430,443,293	356,774,255

The effect of convertible debentures, notes, options and warrants is not included in computing the diluted per share amount, 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:

	2005 $	2004 $
Loss before income taxes and non-controlling shareholders' interest in consolidated subsidiary's (loss) income	6,188	3,650
Income tax recovery at Canadian federal and provincial statutory rates (2005 - 38.12%; 2004 - 38.12%)	2,359	1,391
Effect of expenses incurred in non-taxing jurisdictions	(90)	(136)
Effect of difference in regional income taxes compared with Canadian rates	(1,007)	(449)
Income and (expenses) not taxable (deductible) for income tax purposes	2	(3)
Expenses deductible for income tax purposes, but not for book purposes	67	39
Effect of losses incurred for book purposes, the income tax benefits of which have not been recognized in these financial statements	(1,331)	(842)
Effect of loss of tax basis in certain mining properties in Chile, resulting from loss of documentation referred to below	-	980
Effect of losses in Chile available to offset deferred tax liability recorded in prior year	(980)	-
(Recovery of) provision for future income taxes	(980)	980

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

	2005 $	2004 $
Mining properties, plant and equipment and exploration properties	3,465	3,635
Non-capital losses carried forward	3,262	1,968
	6,727	5,603
Valuation allowance	(6,727)	(6,583)
Net future income tax liability	-	(980)

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.

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 certain of these losses had been lost or destroyed while in storage during a move. Accordingly, a substantial portion of the loss carry-forwards and the tax basis in certain assets and liabilities were determined to 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 was recorded in the amount of $980,000 as at September 30, 2004. In addition, as a result of these events, $1,715,000 of assets for book purposes no longer were 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 January 6, 2006.

As at September 30, 2005, the Company and its subsidiaries had available Canadian income tax loss carry-forwards of approximately $5.9 million that expire between 2006 and 2015, Chilean tax loss carry-forwards of approximately $5.2 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 $6,727,000 as at September 30, 2005 (2004 - $6,583,000) 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, 2005 by $1,331,000 and was reduced by $980,000 and further reduced by $207,000 for tax losses expiring for a net increase of $144,000 (2004 net decrease of $873,000).

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

			2005
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Office furniture and equipment	97	97	-
Vehicles	60	48	12
	157	145	12

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

Amortization expense was $19,000 for 2005 (nil 2004).

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6. Mining properties, plant and equipment

				2005
	Estimated Useful Life	**Cost $**	**Accumulated amortization $**	**Net Book Value $**
Mining properties	UOP	3,969	740	3,229
Buildings and equipment	1-7 years	6,526	3,201	3,325
Mine development	UOP	8,289	1,357	6,932
Total		18,784	5,298	13,486

				2004
	Estimated Useful Life	**Cost $**	**Accumulated amortization $**	**Net Book Value $**
Mining properties	UOP	3,946	256	3,690
Buildings and equipment	1-7 years	5,976	2,681	3,295
Mine development	UOP	8,155	476	7,679
Total		18,077	3,413	14,664

Historically, the Company has recorded IVA (a Chilean value-added tax) taxes paid as part of its exploration properties. It was expected that the sale of Pimenton production during its first year of commercial operation would enable it to recover all of the IVA taxes paid by CM Pimenton. Accordingly, $620,000 of IVA taxes paid were reclassified from mining properties, plant and equipment to recoverable taxes in current assets as of July 1, 2004 and included in the $1,718,000 presented in the consolidated balance sheet as at September 30, 2004. On June 9, 2005 the mine closed due to a major storm (note 1) and it is currently anticipated that operations will resume in late 2006. Accordingly, recoverable taxes in the amount of $1,826,000 have been reclassified as a long term asset in the consolidated balance sheet. Recoverable taxes in the amount of $357,000 as at September 30, 2005, represents IVA taxes paid on certain assets which can be recovered upon request to the tax authorities. The Company has filed such request.

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%, and to acquire two concessions adjoining the Company's Pimenton property. 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 and Bernstein being entitled to the return of the concessions and to reacquire, for nominal consideration, their combined 44% interest in Pimenton (note 11(b)).

The cost of assets under capital leases and the related accumulated amortization amounted to $286,000 in 2005 ($159,000 – 2004) and $58,000 in 2005 ($8,000 – 2004), respectively.

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7. Exploration properties

	Catedral (a) $	CalNorte (b) $	Breccia (c) $	Chachas (d) $	Tordillo (e) $	Other (f) $	Total $
Mining properties							
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
Additional costs capitalized	26	3	-	-	-	-	29
Writedowns	-	-	-	-	-	-	-
Balance as at September 30, 2005	1,092	54	-	77	-	10	1,233
Exploration costs							
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
Additional costs capitalized	10	75	29	22	8	7	151
Writedowns	-	-	-	-	-	-	-
Balance as at September 30, 2005	2,266	1,190	411	31	8	60	3,966
Summary – 2005							
Mining properties	1,092	54	-	77	-	10	1,233
Exploration costs	2,266	1,190	411	31	8	60	3,966
Total as at September 30, 2005	3,358	1,244	411	108	8	70	5,199
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

a) Catedral

The Company owns 50.1% of the Catedral prospect through its subsidiaries Catedral 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

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deposits are hosted by the Los Valdes Formation, which stretches along a significant distance of the high Cordillera. Two officers and directors hold the remaining non-controlling shareholders' interest in Catedral.

On another portion of the concession, an agreement was signed in which CM Catedral must pay the owner of the concession $150,000 on January 25, 2016. 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 Cdn.$0.20 per share. The Company can prepay the $150,000 at any time.

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.

b) Cal Norte

In July 1999, the Company entered into a formal agreement with Compañía Minera Quelon ("Quelon") for the formation of Cal Norte. Under the agreement, the Company acquired a 60% interest in Cal Norte, consisting principally of exploration properties, valued at $332,000. This acquisition was funded by the non-controlling interest. Other assets and liabilities of Cal Norte were insignificant. Quelon contributed its mining equipment, related mine facilities and limestone deposits. The Quelon mining properties are located 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 ton per day lime manufacturing operation (note 16).

As at September 30, 2005, the Company had contributed $1,255,000 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.

In March 2005, Rio Tinto Mining and Exploration Ltd. ("Rio Tinto") and the Company signed a Letter Of Understanding ("LOU") which served as a basis for entering into a formal joint venture option agreement for the exploration and 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 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 $10 million within four years of the date of signing of the LOU under a minimum annual budget of expenditures and complete a feasibility study on the project within seven years of the signing of the LOU to earn a 60% interest in the porphyry copper mineralization at Pimenton, but excluding the current gold mining operations at Pimenton. In August 2005, Rio Tinto notified SAGC of its intention to exercise its option to enter into a joint venture option agreement.

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

(d) Chachas

The Company has renewed its activities on the Chachas gold prospect in Peru and the prospect is in the early exploration stage. The Company is awaiting the finalization of its mining claims.

(e) Tordillo

Tordillo is located 11.5 kilometers south southwest of Pimenton and covers an area of 7,000 hectares. It is in the early exploration stage and to date the Company has identified several narrow gold vein structures similar to those at Pimenton and an area of potential porphyry copper mineralization. Tordillo is located in an area of intense exploration activity.

(f) Other

During the years ended September 30, 2005 and 2004, approximately $nil and $150,000, respectively, in other exploration costs and mining properties were expensed.

8. Receivables – sundry

Receivables – sundry consist of:

	2005 $	2004 $
Sundry receivables	219	123
Receivable from an officer and director (note 17)	-	253
	219	376

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 in the capital of the Company to 850,000,000 common shares.

b) Issued and outstanding

	2005	
	Shares	Amount $
Outstanding –Beginning of year	389,642,949	56,907
Private placements (note i)	43,000,000	1,759
Warrants exercised	-	-
Options exercised	-	-
Note converted	-	-
Compensation (note vi)	400,000	22
Outstanding – End of year	433,042,949	58,688

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

		2004
	Shares	**Amount $**
Outstanding --Beginning of year	265,304,162	51,292
Private placements (note ii)	89,880,214	3,222
Warrants exercised (note iii)	11,910,538	918
Options exercised (note iv)	9,150,000	393
Note converted (note v)	5,148,035	499
Compensation (note vii)	8,250,000	583
Outstanding – End of year	389,642,949	56,907

i) On October 21, 2004, the Company sold through a private placement 40,000,000 units at Cdn.$0.07 per unit, each unit consisting of one common share and one half of one common share purchase warrant to purchase a further common share at Cdn.$0.09 per share at any time within 24 months of the date of issue. In addition, 3,000,000 common shares were sold at Cdn.$0.07 per 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, each exercisable at Cdn.$0.07 per share, expiring 48 months from the date of issue. Net proceeds of the placement were $2,158,541, of which an amount of $276,806 was assigned to warrants and $123,131 was assigned to the brokers warrants, using the Black-Scholes valuation model assuming risk free interest rates of 2.96% and 3.62%, respectively, no dividend and a volatility factor of 30%.

ii) During November 2003, the Company sold through a private placement 49,880,214 units at Cdn.$0.07 per unit, each unit consisting of one common share and one half of one common share purchase warrant to purchase a further common share at Cdn.$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 Cdn.$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 the warrants and $66,716 was assigned to the brokers warrants, using the Black-Scholes valuation model, using risk free interest rates of 3.13% and 3.42%, no dividend and a volatility factor of 30%.

On December 10, 2003, the Company sold through a private placement 40,000,000 units at Cdn.$0.07875 per unit, each unit consisting of one common share and one common share purchase warrant to purchase a further common share at Cdn.$0.105 per common share at any time within 36 months of the date of issue. In connection with the private placement, the Company also issued 3,585,588 brokers warrants, each exercisable at Cdn.$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 the warrants and $70,306 was assigned to the brokers warrants, using the Black-Scholes valuation model assuming a risk free interest rate of 3.20%, no dividend and a 30% volatility factor.

iii) During February 2004, participants in the February 12, 2002, private placement exercised 1,357,571 warrants at a price of Cdn.$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 Cdn.$0.08 per common share for net

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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 Cdn.$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 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 Cdn.$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 holders of warrants issued for drilling services on September 30, 2001, exercised 696,800 warrants at a price of Cdn.$0.10 per common share for net proceeds of $52,000. The value of $702 assigned to these warrants was transferred to share capital.

iv) During January 2004, an officer and director of the Company exercised 3,000,000 options at a price of Cdn.$0.07 per common share and 5,000,000 options at a price of Cdn.$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 Cdn.$0.045 per common share and 400,000 options at a price of Cdn.$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 Cdn.$0.07 per common share for net proceeds of $26,888 (note 9(c)).

v) 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 (note 13(b)).

vi) On December 16, 2004 and February 21, 2005, the Board of Directors authorized the issuance of 200,000 common shares and 200,000 common shares, respectively, to an employee of the Company, pursuant to the terms of the Share Bonus Plan, as compensation for services. The shares were assigned values based on TSX prices, and $22,312 was charged to expense.

vii) 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 Cdn.$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 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 Cdn.$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 interest rate of 3.97%, no dividend and a volatility factor of 30%.

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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 30, 2004, the shareholders approved an 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:

			2005
	$	**Number of Options**	**Weighted Average Exercise price Cdn.$**
Outstanding – Beginning of year	192	43,085,000	0.084
Changes during the year			
Granted (i)	491	19,440,000	0.071
Exercised	-	-	-
Expired (note 13(e))	(3)	(5,000,000)	0.078
Outstanding –End of year	680	57,525,000	0.080
Exercisable – End of year		55,508,310	

			2004
	$	**Number of Options**	**Weighted Average Exercise price Cdn.$**
Outstanding – Beginning of year	-	44,235,000	0.077
Changes during the year			
Granted (note 9(b)(vii))	192	8,000,000	0.090
Exercised (note 9(b)(iv))	-	(9,150,000)	0.057
Expired	-	-	-
Outstanding –End of year	192	43,085,000	0.084
Exercisable – End of year		40,960,000	

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i) The following options were granted to officers, directors and employees during 2005:

	Number of Options	Fair Value $
November 19, 2004	2,000,000	60
February 21, 2005	2,000,000	16
April 5, 2005	15,440,000	415
	19,440,000	491

Options granted to employees during 2005 were fair valued using the Black-Scholes valuation model assuming risk free rates of 3.67% to 3.89%, no dividend, and a volatility factor of 50%. All options vested immediately except options issued on February 21, 2005, which vest monthly over a two year period.

Options outstanding as at September 30,

				2005
Exercise price $	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price Cdn.$**	**Options Exercisable**
0.050	500,000	1.2	0.05	500,000
0.070	8,000,000	1.4	0.07	8,000,000
0.045	275,000	2.9	0.045	275,000
0.060	460,000	2.9	0.06	460,000
0.090	8,000,000	4.0	0.09	8,000,000
0.075	2,000,000	4.1	0.075	2,000,000
0.070	2,000,000	4.4	0.070	583,310
0.070	15,040,000	4.5	0.070	15,040,000
0.090	21,250,000	7.5	0.090	20,650,000
	57,525,000	5.0	0.080	55,508,310

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

				2004
Exercise price $	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price Cdn.$**	**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	0.084	40,960,000

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

10. Accounts payable and accrued liabilities

The balance as at September 30 is as follows:

	2005 $	**2004 $**
Accounts payable	2,095	1,093
Accrual for mine services	274	251
Vacations	23	45
Severance payments	146	-
Cash advanced-insurance claims	197	-
Duties payable	23	28
Royalties payable	-	45
Other	121	172
	2,879	1,634

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11. Long-term debt

		2005	2004
Description	**Interest rate**	**Principal $**	**Principal $**
OPIC note, due December 15, 2008 (a)	8.27%	933	1,200
OPIC note, due December 15, 2008 (a)	8.39%	1,244	1,600
Pimenton note, due December 15, 2009 (b)	5.00% under certain conditions (note 6)	1,260	1,098
Capital leases		155	126
Total		3,592	4,024
Less: Current portion		724	691
Long-term debt		2,868	3,333

Interest paid by the Company was $266,944 and $204,000 for the years ended September 30, 2005 and 2004, 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,			
2006	622	108	730
2007	622	54	676
2008	622	-	622
2009	311	-	311
2010 and thereafter	1,944		1,944
Total	4,121	162	4,283
Less: Accretion and interest	684	7	691
	3,437	155	3,592

a) On March 20, 2003, CM Pimenton, a subsidiary of the Company, filed a loan application with the Overseas Private Investment Corporation ("OPIC"), headquartered in Washington, DC, to finance part of the estimated $4,000,000 required to restart operation at Pimenton. 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

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service reserve account. Accordingly, cash in the amounts of $754,000 and $429,000 had been designated as restricted on the consolidated balance sheets at September 30, 2004. In May 2005, Pimenton met the construction and completion conditions under the loan agreement and the restricted cash of $754,000 plus accrued interest thereon were released from restriction by OPIC. Accrued interest has increased the debt service reserve account to $440,000 at September 30, 2005.

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 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 of $335,000 at September 30, 2005 (2004 - $389,000) associated with the OPIC loan were charged to deferred debt expense on the consolidated balance sheets.

The loan contains financial and operating covenants.

Due to events at the mine (notes 1 and 6) Pimenton advised OPIC that it believes it will not be in compliance with the financial and operating covenants for the calendar quarters through and until October 1, 2006. Pimenton declared "force majeure" under Chilean law with respect to salary payments and other benefits payable under 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 payment 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.

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%, and two concessions adjoining this prospect (note 6). On the purchase, $2,000,000 was paid, and the payment of the balance of the purchase of a further $2,000,000 was payable before May 29, 1995, for consideration and, subject to certain conditions. The noteholders agreed to extend the due date from May 28, 1998 to December 31, 2000.

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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. 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).

The notes were accreted to $1,260,232 at September 30, 2005, with $162,312 being charged to interest expense (2004 - $182,386). By December 15, 2009, the carrying value of the notes will have been accreted to $1,943,561, the face amount due upon maturity.

12. Warrants

	Number of warrants issued	$
September 30, 2003	31,369,308	236
Warrants issued (note 9(b)(ii))	24,940,107	335
Warrants issued (note 9(b)(ii))	4,974,271	67
Cancellation of warrants (a)	(6,000,000)	(7)
Warrants issued (note 9(b)(ii))	40,000,000	784
Warrants issued (note 9(b)(ii))	3,585,588	70
Exercise of warrants (note 9(b)(iii))	(4,347,826)	(39)
Exercise of warrants (note 9(b)(iii))	(3,100,000)	(3)
Exercise of warrants (note 9(b)(iii))	(1,357,571)	(9)
Exercise of warrants (note 9(b)(iii))	(2,408,438)	(6)
Exercise of warrants (note 9(b)(iii))	(696,800)	(1)
Warrants issued (b)	500,000	5
Warrants issued (c)	500,000	5
Warrants issued (d)	500,000	5
Warrants issued (e)	400,000	4
Warrants issued (f)	3,000,000	18
Warrants issued (g)	3,000,000	18
Warrants expired (h)	(10,770,926)	(38)
September 30, 2004	84,087,713	1,444
Warrants issued (note 9(b)(i))	20,000,000	277
Warrants issued (note 9(b)(i))	4,300,000	123
Cancellation of warrants (i)	(2,687,747)	(132)
September 30, 2005	105,699,966	1,712

a) On December 9, 2003, warrant holders cancelled 6,000,000 common share purchase warrants without monetary compensation, which were issued in 2000 and had an exercise price of Cdn.$0.51 per common share. With TSX approval, the Company issued replacement common share purchase warrants at an exercise price of Cdn.$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(f), (g) and 13(a)).

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b) Issued 500,000 warrants in connection with an employment agreement at an exercise price of Cdn.$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%.

c) Issued 500,000 warrants in connection with an employment agreement at an exercise price of Cdn.$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%.

d) Issued 500,000 warrants in connection with a consulting arrangement at an exercise price of Cdn.$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%.

e) Issued 400,000 warrants in connection with a consulting arrangement at an exercise price of Cdn.$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%.

f) Issued 3,000,000 warrants in consideration for canceling previously issued warrants, at an exercise price of Cdn.$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(a)).

g) Issued 3,000,000 warrants in consideration for canceling previously issued warrants, at an exercise price of Cdn.$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(a)).

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

i) Warrants expiring during 2005 were valued at $132,000 (note 13(d)).

The following table summarizes information about the warrants outstanding as at September 30, 2005:

Number of warrants outstanding	Weighted average remaining warrant life (years)	Weighted average exercise price Cdn. $
29,914,378	0.16	0.090
500,000	0.57	0.095
1,000,000	0.67	0.095
400,000	0.70	0.100
20,000,000	1.06	0.090
43,585,588	1.19	0.105
4,300,000	3.06	0.070
6,000,000	5.21	0.250
105,699,966	1.17	0.122

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

13. Contributed surplus

	$
Balance - September 30, 2003	315
Cancellation of warrants (a)	7
Convertible note (b)	(44)
Warrants expired (c)	38
Balance - September 30, 2004	316
Warrants expired (d)	132
Options expired (e)	3
Balance - September 30, 2005	451

a. Cancellation of Pimenton warrants (note 12(a)).

b. 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 (note (9b)(v))

c. Warrants expired during 2004 (note 12(h)).

d. Warrants expired during 2005 (note 12(i)).

e. Options expired during 2005 (note 9(c)).

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. Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows, and the credit-adjusted risk free rate on which the estimated cash flows have been discounted. Cash outflows totaling $1,235,000 are expected to be incurred over a period extending to 10 years. These cash flows are discounted using a rate of 8%. The actual asset retirement obligation and closure costs may differ significantly based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

Due to the Pimenton gold mine shutdown and limited production during 2005, no accretion expense has been recorded in 2005 because management believes that the mine life has been extended.

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

	2005 $	2004 $
Balance- Beginning of year	706	-
Liabilities incurred	72	706
Accretion expense	-	-
Balance- End of year	778	706

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

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) Corporate.

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 Corporate segment includes all exploration and development activities primarily in Chile.

			2005
	Pimenton $	**Corporate** $	**Total** $
Gold revenue	(1,877)	-	(1,877)
Copper and silver revenue	(438)	-	(438)
Cost of sales	2,976	-	2,976
Amortization	1,850	18	1,868
Temporary mine closure	1,072	-	1,072
General and administrative	1,058	793	1,851
Stock-based compensation	40	473	513
Foreign exchange	(63)	(22)	(85)
Interest expense	605	7	612
	5,043	1,269	6,312
Other income	(101)	-	(101)
Interest income	-	(23)	(23)
Future income tax benefit	(980)	-	(980)
Non-controlling shareholders interest	-	(13)	(13)
Loss for the year	3,962	1,233	5,195

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

			2004
	Pimenton **$**	**Corporate** **$**	**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	(27)	(14)	(41)
Interest expense	522	70	592
	2,233	1,966	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	2,670	1,978	4,648

Of the corporate segment's losses of $1,233,000 and $1,978,000 in 2005 and 2004, approximately $44,000 and $226,000, respectively, relates to Chilean activities, with the remainder reflecting primarily corporate activities in Canada, United States 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 Cdn.$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	1,255

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

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 $78,112 in 2005 (2004 - $81,000) for the provision of office space and services by the company.

A law firm, of which an officer is a partner, billed $50,000 in 2005 (2004 - $111,000) for the provision of legal services. These services were provided at rates similar to those charged to non-related parties.

The note receivable from an officer and director is a non-interest bearing note due on or before December 31, 2006, collateralized by 6,532,000 common shares of the Company from the officer and a director of the Company in the amount of $286,233 at September 30, 2005. At September 30, 2004, non-interest bearing advances to this officer and director amounted to $252,839 and were included in sundry receivables (note 8).

An officer of the Company billed $121,000 for accounting services rendered to the Company in 2005 (2004 - $87,000).

Amounts due to related parties include $48,498 and $12,247 as at September 30, 2005 and 2004, respectively, for interest due to an officer and director of the Company who holds one of the Pimenton notes in the fair value amount of $630,116 (note 11(b)). In addition, amounts due to related parties include $91,802 and $30,349 for royalties due to this officer and director who is the owner of a net smelter royalty on the Pimenton gold mine.

Amounts due to related parties also include cash advances of $676,552 and $41,189 at September 30, 2005 and 2004, respectively, from officers and directors and cash advances to participate in the private placement of $84,000 at September 30, 2004 from another officer and director.

In addition, amounts due to related parties include $67,152 and $27,307 at September 30, 2005 and 2004, respectively, for services rendered to the Company by officers and directors.

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, restricted cash, receivables, note receivable, taxes recoverable, current liabilities, reclamation and remediation, 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.

The Company's operations expose it to significant fluctuations in foreign exchange rates.

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

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19. Short-term borrowings

Short term borrowings consist of non-interest bearing notes to a supplier payable in monthly installments through September 2006.

20. Supplemental cash flow information

	2005 $	2004 $
Changes in non-cash working capital relating to operations		
Receivables		
Trade	165	(168)
Sundry	157	(163)
Recoverable taxes	(464)	(1,098)
Materials and supplies	16	(118)
Accounts payable and accrued liabilities, excluding interest in accrued liabilities	1,245	955
Taxes – payable	165	203
Amounts due related parties	50	154
	1,334	(235)
Significant non-cash financing and investing activities		
Long-term debt converted to share capital (note 11(c))	-	455
Options	491	192
Shares issued	22	583
Note receivable from an officer and director (note 17)	286	-
Short term borrowings (note 18)	(232)	-

No income taxes were paid during 2005 and 2004.

21. Comparative amounts

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

22. Subsequent event

In connection with a private placement that closed in three tranches on November 10, 25, and 27, 2003, the Company issued 24,940,107 common share purchase warrants exercisable at Cdn $0.09 per common share and expiring on November 10, 25, and 27, 2005. The warrants were assigned a value of $334,505. In addition, the Company issued 4,974,271 brokers warrants exercisable at Cdn $0.09 per common share and expiring on November 10, 25 and 27, 2005. The brokers warrants were assigned a value of $66,716.

On October 31, 2005, the TSX approved a reduction in the exercise price from Cdn.$0.09 to Cdn.$0.055 per common share for the common share purchase warrants and the brokers warrants and the issuance of an additional common share purchase warrant to purchase a further common share at Cdn $0.07 per share at any time within 24 months of the date of issue for the period through November 30, 2005. The fair value of these modified warrants of $78,829 in excess of the fair value of the

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original warrants at the modification date of $nil, will be charged to expense. The fair values of the warrants were assigned using the Black-Scholes valuation model assuming a risk free interest rates of 2.55% and a volatility factor of 50%.

On November 8, 16 and 30, 2005, 16,635,628 warrants were exercised at a price of Cdn.$0.055 per common share resulting in the issuance of 16,635,628 common shares and 16,635,628 common share purchase warrants to purchase a further common share at Cdn $0.07 per share at any time within 24 months of the date of issue. Net proceeds of the exercise of warrants were $699,830 of which $152,622 was assigned to the warrants using the Black-Scholes valuation model assuming risk free interest rates of 3.68% to 3.73% and a volatility factor of 50%. The $147,225 value assigned to these warrants was transferred to share capital.