South American Gold and Copper Company Limited

Consolidated Financial Statements
September 30, 2006 and 2005
(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.

"Stephen W. Houghton"
Stephen W. Houghton
President and
Chief Executive Officer

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

Halifax, Nova Scotia
January 9, 2007

PRICEWATERHOUSECOOPERS

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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, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the fiscal years then ended. These consolidated 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, 2006 and 2005 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
Toronto

January 9, 2007

South American Gold and Copper Company Limited
Consolidated Balance Sheets
As at September 30, 2006 and 2005

(expressed in thousands of U.S. dollars)

	2006 $	2005 $
Assets		
Current assets		
Cash and cash equivalents	72	50
Restricted cash (note 10(a))	22	440
Note receivable from an officer and director (note 16)	286	-
Receivables		
Trade	-	3
Sundry (notes 8 and 16)	136	219
Recoverable taxes (note 6)	-	357
Material and supplies, at cost	75	103
	591	1,172
Note receivable from an officer and director (note 16)	-	286
Equipment (note 5)	4	12
Mining properties, plant and equipment (note 6)	12,230	13,486
Exploration properties (note 7)	5,385	5,199
Recoverable taxes (note 6)	2,186	1,826
Deferred debt expense (note 10(a))	248	335
Total assets	20,644	22,316

Going concern and nature of operations (note 1)

Commitments (note 15)

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

South American Gold and Copper Company Limited
Consolidated Balance Sheets …*continued*
As at September 30, 2006 and 2005

(expressed in thousands of U.S. dollars)

	2006 $	2005 $
Liabilities		
Current liabilities		
Short term borrowings (note 17)	141	232
Current portion of long-term debt (note 10)	973	724
Accounts payable and accrued liabilities	1,674	2,879
Taxes payable (IVA)	398	368
Amounts due to related parties (note 16)	879	884
	4,065	5,087
Long-term debt (note 10)	3,110	2,868
Reclamation and remediation (note 13)	635	778
Non-controlling interest in consolidated subsidiary	139	141
Total liabilities	7,949	8,874
Shareholders' equity		
Share capital (note 9(b))	60,321	58,688
Contributed surplus (note 12)	708	451
Convertible subordinated debentures (note 10 (c))	907	-
Options (note 9(c))	842	680
Warrants (note 11)	1,444	1,712
Deficit	(51,527)	(48,089)
Total shareholders' equity	12,695	13,442
Total liabilities and shareholders' equity	20,644	22,316

Going concern and nature of operations (note 1)

Commitments (note 15)

Approved by the Board of Directors

"Paul J. DesLauriers"	**"Stephen W. Houghton"**
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, 2006 and 2005

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

	2006 $	2005 $
Revenue		
Gold	2	1,877
Copper and silver	2	438
Other	24	-
	28	2,315
Expenses		
Operating costs	20	2,796
Amortization	904	1,868
Temporary mine shutdown (notes 1 and 6)	505	1,072
General and administrative	1,169	1,851
Stock-based compensation (notes 9(b)(iii) and 9(c))	328	513
Warrant revaluation (note 9(b)(i))	79	-
Foreign exchange gain	(80)	(85)
Interest on long-term indebtedness	688	612
	3,613	8,627
Loss before undernoted	3,585	6,312
Other income	(141)	(101)
Interest income	(4)	(23)
Loss before income taxes and non-controlling interest in consolidated subsidiary's loss	3,440	6,188
Recovery of future income taxes (note 4)	-	(980)
Non-controlling interest in consolidated subsidiary's loss	(2)	(13)
Loss for the year	3,438	5,195
Deficit - Beginning of year	48,089	42,894
Deficit - End of year	51,527	48,089
Basic and diluted loss per share (note 3)	0.01	0.01

Going concern and nature of operations (note 1)

Commitments (note 15)

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, 2006 and 2005

(expressed in thousands of U.S. dollars)

	2006 $	2005 $
Cash provided by (used in)		
Operating activities		
Loss for the year	(3,438)	(5,195)
Non-cash items		
Recovery of future income taxes	-	(980)
Amortization	904	1,868
Accretion of interest on long term debt and amortization of deferred debt expense (note 10)	327	258
Foreign exchange gain	(80)	(85)
Non-controlling interest in consolidated subsidiary's loss	(2)	(13)
Non-cash employee share compensation (notes 9(b)(iii) and 9(c)(v))	321	22
Non-cash non-employee share compensation (note 9(c)(vi))	7	-
Non-cash employee options	-	491
Non-cash warrant revaluation	79	-
	(1,882)	(3,634)
Changes in non-cash working capital relating to operations (note 18)	(1,066)	1,334
	(2,948)	(2,300)
Investing activities		
Additions to mining equipment	(54)	(640)
Additions to mining properties	-	(23)
Additions to development costs	-	(26)
Additions to exploration properties (note 7)	(186)	(180)
Additions to equipment	-	(30)
Decrease in restricted cash (note 10(a))	418	743
Other assets	(3)	-
Sale of assets	4	89
Insurance recoveries	238	-
	417	(67)
Financing activities		
Shares issued (note 9(b)(iv))	452	2,159
Warrants exercised (note 9(b)(i))	700	-
Options exercised (note 9(b)(ii))	144	-
Convertible secured debentures (note 10(c))	1,600	-
Increase in deferred debt expense (note 10(a))	(17)	(42)
Capital leases	-	98
Repayment of capital leases	(26)	(69)
Repayment of debt (note 10(a))	(311)	(622)
Advances from directors and officers	-	635
	2,542	2,159
Effect of foreign exchange on cash and cash equivalents held in foreign currency	11	32
Increase (decrease) in cash and cash equivalents during the year	22	(176)
Cash and cash equivalents - Beginning of year	50	226
Cash and cash equivalents - End of year	72	50

Supplemental cash flow information (note 18)
Going concern and nature of operations (note 1)
Commitments (note 15)

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 snow storm caused damage to the electrical and air compressor equipment at the Pimenton mine main portal entrance resulting in 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 2007.

As at September 30, 2006, the Company reported a deficit of approximately $51.5 million and a working capital deficiency of $3.5 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 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) based upon proven and probable mineral reserves and mineral resources.

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 and development costs will not be recovered, such as would be possibly indicated when:

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- 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 to its fair value and 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 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 undiscounted cash flows relating to the mining properties, plant and equipment. Such impairment loss recognized is calculated as the excess of the carrying amount over the fair value of the mining properties, plant and equipment, and is charged to operations.

e) Reclamation and remediation

Asset retirement obligations are recorded in mining properties, plant and equipment and in liabilities at fair value when incurred. The liability is accreted over time through periodic charges to 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 undiscounted cash flows relating to the equipment. The impairment loss recognized is calculated as the excess of the carrying amount over the fair value of the equipment, and is charged to operations.

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g) Measurement uncertainty

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

j) Income taxes

The asset and liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and income tax bases of assets and liabilities and are measured using the income tax rates substantively enacted at the 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 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 incurred over the terms of the related indebtedness.

n) 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 long-term debt. The fair values of the short-term financial assets and liabilities approximate their carrying amounts because of the short period to receipt or payment of cash. Long-term debt is initially measured at fair value, and is subsequently accreted up to face value over the term of the debt using the effective interest method. For long-term debt with an initial fair value that reasonably approximates the face value, the liability is carried on the balance sheet at face value.

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.

3. Basic and diluted loss per share

	2006	2005
Net loss	$3,438	$5,195
Weighted average number of shares outstanding – basic	449,825,797	430,443,293
Basic and diluted loss per share	$0.01	$0.01

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 years, such effect would be anti-dilutive.

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4. Income taxes

The Company's recovery of future income taxes has been calculated as follows:

	2006	2005
	$	$
Loss before income taxes and non-controlling interest in consolidated subsidiary's loss	3,440	6,188
Income tax recovery at Canadian federal and provincial statutory rates (2006 - 38.12%; 2005 - 38.12%)	1,311	2,359
Effect of expenses incurred in non-taxing jurisdictions	(57)	(90)
Effect of difference in regional income taxes compared with Canadian rates	(375)	(1,007)
Income and (expenses) not taxable (deductible) for income tax purposes	(174)	2
Expenses deductible for income tax purposes, but not for book purposes	84	67
Effect of losses incurred for book purposes, the income tax benefits of which have not been recognized in these financial statements	(789)	(1,331)
Effect of losses in Chile available to offset deferred tax liability recorded in prior year	-	(980)
Recovery of future income taxes	-	(980)

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

	2006	2005
	$	$
Mining properties, plant and equipment and exploration properties	3,368	3,465
Non-capital losses carried forward	4,148	3,262
	7,516	6,727
Valuation allowance	(7,516)	(6,727)
Net future income tax liability	-	-

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 losses from prior periods 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 could not support the tax basis in certain assets and liabilities on the consolidated balance sheets at that point in time, 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,

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$1,715,000 of assets for book purposes no longer was available to offset future income for tax purposes. Management continues to explore what actions can be taken, if any, to ameliorate the impact of the loss of documentation, but to date has not found a satisfactory solution.

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 were recorded in 2005. This resulted in no net future income tax liability as at September 30, 2005.

As at September 30, 2006, the Company and its subsidiaries had available Canadian income tax loss carry-forwards of approximately $6.0 million that expire between 2007 and 2016, Chilean tax loss carry-forwards of approximately $6.8 million that can be carried forward indefinitely and U.S. tax loss carry-forwards of approximately $0.5 million that can be carried forward 20 years.

The Company has recorded a valuation allowance in the amount of $7,516,000 at September 30, 2006 (2005 - $6,727,000) because management currently believes that the future income tax assets are not more likely than not to be realized in the allowable loss carry-forward periods. The valuation allowance was increased during the year ended September 30, 2006 by $789,000 (2005 net increase of $144,000).

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

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

5. Equipment

			2006
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
Office furniture and equipment	97	97	-
Vehicles	50	46	4
	147	143	4

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

Amortization expense was $4,000 for 2006 ($19,000 - 2005).

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6. Mining properties, plant and equipment

				2006
	Estimated Useful Life	**Cost $**	**Accumulated amortization $**	**Net Book Value $**
Mining properties	UOP	3,969	740	3,229
Buildings and equipment	1-7 years	6,313	4,101	2,212
Mine development	UOP	8,146	1,357	6,789
Total		18,428	6,198	12,230

				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

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 June 9, 2005, the mine closed due to a major snow storm (note 1), and it is currently anticipated that operations will resume in late 2007 provided the necessary financing can be obtained. Temporary mine shutdown expenses were $505,000 in 2006 ($1,072,000 – 2005). Accordingly, recoverable taxes in the amount of $2,186,000 have been classified as a long-term asset in the consolidated balance sheet. Recoverable taxes in the amount of $354,000 at September 30, 2006 ($357,000 – September 30, 2005) represent IVA taxes paid on fixed assets which can be recovered upon request to the Chilean tax authorities. The Company filed such request which has been denied by the Chilean tax authorities on technical grounds. The Company is appealing this decision and has reclassified IVA taxes on fixed assets as a long-term asset. IVA relating to other expenditures is recoverable either by means of a credit against tax due upon domestic sales of the Company or by requesting reimbursement of IVA borne when exporting or export commitments are proven. Therefore, the recoverability of these amounts is dependent upon the ability of the Company to develop and derive future production from its Pimenton gold mine.

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

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the return of the concessions and to reacquire, for nominal consideration, their combined 44% interest in Pimenton (note 10(b)).

The cost of assets under capital leases and the related accumulated amortization amounted to $258,000 in 2006 ($286,000 – 2005) and $53,000 in 2006 ($58,000 – 2005), respectively.

7. Exploration properties

	Catedral (a)	CalNorte (b)	Breccia (c)	Chachas (d)	Tordillo (e)	Other (f)	Total
	$	$	$	$	$	$	$
Mining properties							
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
Additional costs capitalized	-	-	-	-	-	-	-
Writedowns	-	-	-	-	-	-	-
Balance as at September 30, 2006	1,092	54	-	77	-	10	1,233
Exploration costs							
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
Additional costs capitalized	40	106	-	23	10	7	186
Writedowns	-	-	-	-	-	-	-
Balance as at September 30, 2006	2,306	1,296	411	54	18	67	4,152
Summary – 2006							
Mining properties	1,092	54	-	77	-	10	1,233
Exploration costs	2,306	1,296	411	54	18	67	4,152
Total as at September 30, 2006	3,398	1,350	411	131	18	77	5,385
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

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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. The deposits are hosted by the Los Valdes Formation, which stretches along a significant distance of the high Cordillera. Two officers and directors hold the remaining non-controlling interest in Catedral (note 16).

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

b) Cal Norte

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

As at September 30, 2006, 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 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. In June 2006, Rio Tinto informed the Company that it has elected not to proceed with the exploration on the porphyry copper deposit at Pimenton. This decision was taken based on Rio Tinto’s perception that the potential of the project did not meet its size requirements.

(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.

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

(e) Tordillo

Tordillo is located south-southwest of Pimenton. 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, 2006 and 2005, no other exploration costs and mining properties were expensed.

8. Receivables – sundry

Receivables – sundry consist of:

	2006	2005
	$	$
Sundry receivables	114	219
Receivable from an officer and director (note 16)	22	-
	136	219

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

	2006	
	Shares	Amount $
Outstanding – Beginning of year	433,042,949	$58,688
Warrants exercised (i)	16,635,628	814
Options exercised (ii)	2,344,286	181
Compensation (iii)	1,500,000	106
Private placement (iv)	10,000,000	452
Services (v)	1,774,270	80
Outstanding – End of year	465,297,133	$60,321

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

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

(i) 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 original warrants immediately prior to the modification date of $nil, was charged to expense. The fair values of the modified warrants were assigned using the Black-Scholes valuation model assuming risk free interest rates of 2.55%, no dividend 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%, no dividend and a volatility factor of 50%. The $226,910 fair value originally assigned to these warrants and $40,050 of the fair value assigned to modified warrants was transferred to share capital. On November 30, 2005, the remaining 13,278,750 warrants expired and $174,311 of the original fair value and $38,779 of the modified fair value assigned to these warrants was transferred to contributed surplus.

(ii) On February 28, 2006, a director of the Company exercised 1,714,286 options at an exercise price of Cdn. $0.07 per common for a net proceeds of $104,611 and the fair value assigned to these options of $19,591 was transferred to share capital

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

On March 15, 2006, a director and officer of the Company exercised 630,000 options at an exercise price of Cdn. $0.07 per common for a net proceeds of $39,500 and the fair value assigned to these options of $17,279 was transferred to share capital.

(iii) On March 1, 2006 the Board of Directors approved the issuance of 1,500,000 common shares under the Company's Share Bonus Plan subject to the shareholders approving amendments to the Company's Share Option Plan. Such amendments were approved by the shareholders on April 18, 2006. The value assigned to these bonus shares was based on the TSX closing price on April 17, 2006.

(iv) On September 8, 2006 the Company completed a non-brokered private placement of 10,000,000 common shares at a price of Cdn. $0.05 per common share for a gross proceeds of $451,910.

(v) On September 29, 2006, a vendor was issued 1,774,270 common shares in part settlement for services rendered to the Company. These shares were valued at Cdn. $0.05 per share, for a total fair value of $79,757, equal to the amount of the liability discharged.

vi) 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 broker's 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%.

vii) 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 broker's 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 broker's warrants, using the Black-Scholes valuation model assuming a risk free interest rate of 3.20%, no dividend and a 30% volatility factor.

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

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.

On April 18, 2006, the shareholders approved an amendment to the share option plan to:

iii) increase the maximum number of common shares issuable under the share option plan from 85,000,000 common shares to 105,000,000 common shares, and

iv) increase the maximum number of common shares issuable to eligible participants under the Share Bonus Plan, within the share option plan, from 15,000,000 common shares to 20,000,000 common shares.

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

			2006
	$	**Number of Options**	**Weighted Average Exercise price Cdn. $**
Outstanding – Beginning of year	680	57,525,000	0.080
Changes during the year			
Granted (v)	215	5,714,286	0.065
Vested amortized fair value (vi)	7	-	-
Exercised (note 9(b)(ii))	(37)	(2,344,286)	0.070
Expired (note 12(d))	(23)	(2,000,000)	0.070
Outstanding – End of year	842	58,895,000	0.080
Exercisable – End of year		58,595,000	

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

			2005
	$	**Number of Options**	**Weighted Average Exercise price Cdn. $**
Outstanding – Beginning of year	192	43,085,000	0.084
Changes during the year			
Granted	491	19,440,000	0.071
Exercised	-	-	-
Expired (note 12(b))	(3)	(5,000,000)	0.078
Outstanding – End of year	680	57,525,000	0.080
Exercisable – End of year		55,508,310	

(v) The following options were granted to officers, directors and employees during 2006:

	Number of Options	**Fair Value** $
March 1,2006	5,714,286	215

These options were fair valued using the Black-Scholes valuation model assuming a risk free rate of 3.87%, no dividend, and a volatility factor of 50%. The fair value of the options was not recorded until amendments to the share option plan were approved by the shareholders on April 18, 2006. All options vested immediately.

(vi) The unvested, unamortized fair value of the stock options granted amounted to $nil at September 30, 2006 and $38,325 at September 30, 2005. The 300,000 options not vested at September 30, 2006, will be fully vested by April 7, 2007.

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

Options outstanding as at September 30,

				2006
Exercise price $	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price Cdn. $**	**Options Exercisable**
0.050	500,000	0.2	0.050	500,000
0.070	7,000,000	0.4	0.070	7,000,000
0.045	275,000	1.9	0.045	275,000
0.060	460,000	1.9	0.060	460,000
0.090	8,000,000	3.0	0.090	8,000,000
0.070	2,000,000	3.4	0.070	2,000,000
0.070	13,695,714	3.5	0.070	13,695,714
0.065	5,714,286	4.4	0.065	5,714,286
0.090	21,250,000	6.5	0.090	20,950,000
	58,895,000	4.2	0.080	58,595,000

				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

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10. Long-term debt

		2006	**2005**
Description	**Interest rate**	**Principal $**	**Principal $**
OPIC note, due December 15, 2008 (a)	8.27%	800	933
OPIC note, due December 15, 2008 (a)	8.39%	1,067	1,244
Pimenton note, due December 15, 2009 (b)	5.00% under certain conditions (note 6)	1,423	1,260
Convertible secured debentures, due March 31, 2013 (c)		753	-
Capital leases		40	155
Total		4,083	3,592
Less: Current portion		973	724
Long-term debt		3,110	2,868

Interest paid by the Company was $177,750 and $266,944 for the years ended September 30, 2006 and 2005, 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,			
2007	933	40	973
2008	622	-	622
2009	312	-	312
2010	1,944	-	1,944
2011 and thereafter	1,600	-	1,600
Total	5,411	40	5,451
Less: Accretion and interest	1,368	-	1,368
	4,043	40	4,083

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 operations 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.

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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 had been designated as restricted on the consolidated balance sheet 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 had increased the debt service reserve account to $439,585 at September 30, 2005. During 2006, the debt service reserve account was reduced to pay the principal and interest of $401,909 due OPIC on December 15, 2005 and an OPIC service fee of $18,877, and increased by accrued interest of $3,590.

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.

The OPIC notes are carried at cost which management believes approximates fair value.

Loan origination expenses of $248,000 at September 30, 2006 (2005 - $335,000) primarily associated with the OPIC loan were charged to deferred debt expense on the consolidated balance sheets and are being amortized over the life of the loan.

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 June 30, 2008. 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.

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As of September 30, 2006, OPIC has granted Pimenton waivers with respect to the financial and operating events of default discussed above until June 30, 2008.

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.

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 which was recognized in fiscal 2004.

The notes were accreted to $1,422,545 at September 30, 2006 ($1,260,233 -September 30, 2005), with $162,312 being charged to interest expense in 2006 and 2005. By December 15, 2009, the carrying value of the notes will have been accreted to $1,943,561, the face amount due upon maturity.

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

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

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

The debentures were accreted to $753,364 at September 30, 2006, with $60,627 being charged to interest expense in 2006. By March 31, 2013, the carrying value of the notes will have been accreted to $1,600,000, the face amount due upon maturity.

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

11. Warrants

	Number of warrants issued	$
Balance - September 30, 2004	84,087,713	1,444
Warrants issued (note 9(b)(vi))	20,000,000	277
Warrants issued (note 9(b)(vi))	4,300,000	123
Cancellation of warrants (a)	(2,687,747)	(132)
Balance - September 30, 2005	105,699,966	1,712
Warrants modified (note 9(b)(i))	-	79
Warrants exercised (note 9(b)(i))	(16,635,628)	(266)
Warrants issued (note 9(b)(i))	16,635,628	153
Cancellation of warrants (b)	(15,178,750)	(234)
Balance - September 30, 2006	90,521,216	1,444

a) Warrants expiring during 2005 were valued at $132,000 (note 12(a)).
b) Warrants expiring during 2006 were valued at $234,000 (note 12(c)).

The following table summarizes information about the warrants outstanding as at September 30, 2006:

Number of warrants outstanding	Weighted average remaining warrant life (years)	Weighted average exercise price Cdn. $
20,000,000	0.06	0.090
43,585,588	0.19	0.105
16,635,628	1.14	0.070
4,300,000	2.06	0.070
6,000,000	4.21	0.250
90,521,216	0.69	0.103

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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

12. Contributed surplus

	$
Balance - September 30, 2004	316
Warrants expired (a)	132
Options expired (b)	3
Balance - September 30, 2005	451
Warrants expired (c)	234
Options expired (d)	23
Balance - September 30, 2006	708

a) Warrants expired during 2005 (note 11(a)).
b) Options expired during 2005 (note 9(c)).
c) Warrants expired during 2006 (note 11(b)).
d.) Options expired during 2006 (note 9(c)).

13. Reclamation and remediation

The Company's mining and exploration activities are subject to various Chilean laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are becoming more restrictive. Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows, and the credit-adjusted risk free rate on which the estimated cash flows have been discounted. The total undiscounted amount of estimated cash flows of $1,925,000 is expected to be incurred over a period extending to 8 years. These estimated cash flows are discounted using a credit-adjusted risk free rate of 15%. The actual asset retirement obligation and closure costs may differ significantly based on

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

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 and 2006, no accretion expense has been recorded in these years 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:

	2006	2005
	$	$
Balance - Beginning of year	778	706
Increase in (reduction of) liabilities (i)	(143)	72
Accretion expense	-	-
Balance - End of year	635	778

(i) The reduction is due to a change in estimated future labor costs.

14 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.

Of the total Company assets of $20,644,000 and $23,316,000 at September 30, 2006and 2005, $14,817,000 and $16,302,000, respectively, relate to Pimenton.

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

	2006		
	Pimenton $	**Corporate $**	**Total $**
Gold revenue	(2)	-	(2)
Copper and silver revenue	(2)	-	(2)
Other revenue	(24)	-	(24)
Cost of sales	20	-	20
Amortization	900	4	904
Temporary mine closure	505	-	505
General and administrative	473	696	1,169
Stock-based compensation	-	328	328
Warrant revaluation	-	79	79
Foreign exchange	(91)	11	(80)
Interest expense	572	116	688
	2,351	1,234	3,585
Other income	(141)	-	(141)
Interest income	-	(4)	(4)
Future income tax benefit	-	-	-
Non-controlling interest	-	(2)	(2)
Loss for the year	2,210	1,228	3,438

	2005		
	Pimenton $	**Corporate $**	**Total $**
Gold revenue	(1,877)	-	(1,877)
Copper and silver revenue	(438)	-	(438)
Cost of sales	2,796	-	2,796
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 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)

Of the corporate segment's losses of $1,228,000 and $1,233,000 in 2006 and 2005, approximately $8,000 of income and $44,000 of loss, respectively, relates to Chilean activities, with the remainder reflecting primarily corporate activities in Canada, United States and Bermuda.

15. Commitments

Project	Description	Total Potential Commitment	Paid to date
		$	$
Catedral and Rino	A loan for development costs (note 16).	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

16. Related party transactions

A company owned by an individual who is an officer and director of the Company billed $82,946 in 2006 (2005 - $78,112) for the provision of office space and services by the company.

A law firm, of which a former officer is a partner, billed $46,680 in 2006 (2005 - $50,000) for the provision of legal services. These services were provided at rates similar to those charged to non-related parties.

The note receivable of $286,233 at September 30, 2006 and 2005 is from an officer and director of the Company. It is a non-interest bearing note due on or before an extended due date of September 30, 2007, collateralized by 6,532,000 common shares of the Company owned by this officer and director. At September 30, 2006, non-interest bearing advances to this officer and director amounted to $21,964 (September 30, 2005 - $nil) and are included in sundry receivables (note 8).

An officer of the Company billed $102,935 for accounting services rendered to the Company in 2006 (2005 - $121,000).

Amounts due to related parties include $96,930 and $48,498 as at September 30, 2006 and 2005, 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 $708,977 and $630,116 at September 30, 2006 and 2005, respectively (note 10(b)). In addition, amounts due to related parties at September 30, 2006 and 2005 include

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

$91,802 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 $506,925 and $676,552 at September 30, 2006 and 2005, respectively, from officers and directors of the Company.

In addition, amounts due to related parties include $129,102 and $67,152 at September 30, 2006 and 2005, respectively, for services rendered to the Company by officers and directors of the Company.

Two officers and directors of the Company hold the non-controlling interest in Catedral (note 7(a)). Under an agreement dated November 27, 1996, the Company agreed to provide or cause to provide these officers and directors a loan of up to $1,250,000 each or $2,500,000 in total. Such loans are to pay their proportionate share of development costs if a bankable feasibility study demonstrates that the properties can be placed into commercial production, and to fund their combined 50% share of an option payment totaling $500,000, which was paid during 1997.

Two officers and directors hold the convertible secured debentures (note 10(c)). At September 30, 2006, amounts due to these individuals include $54,100 for interest on this debt.

17. Short-term borrowings

Short term borrowings consist of non-interest bearing notes to a supplier.

18 Supplemental cash flow information

	2006	2005
	$	$
Changes in non-cash working capital relating to operations		
Receivables		
Trade	3	165
Sundry	83	157
Recoverable taxes (note 6)	-	(464)
Materials and supplies	28	16
Accounts payable and accrued liabilities, excluding interest in accrued liabilities	(1,205)	1,245
Taxes – payable	30	165
Amounts due to related parties	(5)	50
	(1,066)	1,334
Significant non-cash financing and investing activities		
Options	37	491
Shares issued	186	22
Note receivable from an officer and director (note 16)	-	286
Short term borrowings (note 17)	-	(232)

No income taxes were paid during 2006 and 2005.

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

19 Comparative amounts

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

20 Subsequent events

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. The warrants were assigned a value of $276,806. On October 16, 2006, the TSX agreed to extend the expiration date on the 20,000,000 warrants from October 21, 2006, to October 22, 2007. The fair value of these modified warrants of $14,037 in excess of the fair value of the original warrants immediately prior to 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 risk free interest rates of 4.07%, no dividend and a volatility factor of 50%.

On November 6, 2006, the Company issued 2,000,000 common shares to a former employee in full settlement with respect to severance and other salary related matters. The shares were assigned a value of $70,834 based on the closing TSX price. At September 30, 2006, the Company had recorded an estimated liability with respect to this matter of $121,453.

In connection with a private placement that closed on December 10, 2003, the Company issued 40,000,000 common share purchase warrants exercisable at Cdn. $0.105 per common share and expiring on December 10, 2006. The warrants were assigned a value of $784,315. In addition, the Company issued 3,585,588 brokers warrants exercisable at Cdn. $0.105 per common share and expiring on December 10, 2008. The brokers warrants were assigned a value of $70,306.

On November 21, 2006, the TSX approved a reduction in the exercise price from Cdn. $0.105 to Cdn. $0.040 per common share for the common share purchase warrants and the brokers warrants. The fair value of these modified warrants of $411,778 in excess of the fair value of the original warrants immediately prior to 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 risk free interest rates of 4.00%, no dividend and a volatility factor of 50%.

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

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

Michael Churchill*
Toronto, Canada
Executive Vice President

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

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

Thomas K. Sills
Toronto, Canada
Chief Operating Officer

William C. O'Donnell
New York, New York
Executive Vice President, Chief Financial Officer and Secretary
Former Vice President and CFO,
St. Joe Minerals Company

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

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