# South American Gold and Copper Company Limited

Consolidated Financial Statements
**September 30, 2007 and 2006**
(expressed in thousands of U.S. dollars)

December 19, 2007

## Management's responsibility for financial reporting

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

Management is responsible for the preparation of the consolidated financial statements and believes that they fairly represent the Company's financial position and the results of its operations, in accordance with Canadian generally accepted accounting principles.

Management has included amounts in the Company's consolidated financial statements based on estimates, judgments and policies that it believes reasonable under the circumstances.

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

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

"Stephen W. Houghton"
Chief Executive Officer

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

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December 19, 2007

## 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, 2007 and 2006 and the consolidated statements of operations, deficit and comprehensive loss 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants, Licensed Public Accountants**

Toronto, Ontario, Canada

# South American Gold and Copper Company Limited
Consolidated Balance Sheets
**As at September 30, 2007 and 2006**

(expressed in thousands of U.S. dollars)

| | 2007<br>$ | 2006<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 344 | 72 |
| Restricted cash (note 10(a)) | 22 | 22 |
| Receivable from an officer and director (note 16) | - | 286 |
| Receivables (notes 8 and 16) | 73 | 136 |
| Materials and supplies, at cost | 78 | 75 |
| | 517 | 591 |
| Receivable from an officer and director (note 16) | 329 | - |
| Equipment (note 5) | - | 4 |
| Mining properties, plant and equipment (note 6) | 11,874 | 12,230 |
| Exploration properties (note 7) | 5,814 | 5,385 |
| Recoverable taxes (note 6) | 2,456 | 2,186 |
| Loan origination expenses (note 10(a)) | - | 248 |
| **Total assets** | 20,990 | 20,644 |

Going concern and nature of operations (note 1)

Commitments (note 15)

# South American Gold and Copper Company Limited

Consolidated Balance Sheets …*continued*

**As at September 30, 2007 and 2006**

(expressed in thousands of U.S. dollars)

| | 2007<br>$ | 2006<br>$ |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| Short-term borrowings (note 17) | 10 | 141 |
| Current portion of long-term debt (note 10) | 1,244 | 973 |
| Accounts payable and accrued liabilities | 1,027 | 1,674 |
| Taxes payable (IVA) | 466 | 398 |
| Amounts due to related parties (note 16) | 951 | 879 |
| | 3,698 | 4,065 |
| Long-term debt (note 10) | 2,574 | 3,110 |
| Reclamation and remediation (note 13) | 884 | 635 |
| Non-controlling interest in consolidated subsidiary | 139 | 139 |
| **Total liabilities** | 7,295 | 7,949 |
| **Shareholders' Equity** | | |
| Share capital (note 9(b)) | 63,628 | 60,321 |
| Contributed surplus (note 12) | 708 | 708 |
| Convertible subordinated debentures (note 10(c)) | 907 | 907 |
| Options (note 9(c)) | 1,019 | 842 |
| Warrants (note 11) | 2,688 | 1,444 |
| Deficit and comprehensive loss | (55,255) | (51,527) |
| **Total shareholders' equity** | 13,695 | 12,695 |
| **Total liabilities and shareholders' equity** | 20,990 | 20,644 |

Going concern and nature of operations (note 1)

Commitments (note 15)

**Approved by the Board of Directors**

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

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

# South American Gold and Copper Company Limited

Consolidated Statements of Operations, Deficit and Comprehensive Loss

**For the years ended September 30, 2007 and 2006**

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

| | 2007<br>$ | 2006<br>$ |
|---|---|---|
| **Revenue** | | |
| Gold | - | 2 |
| Copper and silver | - | 2 |
| Other | - | 24 |
| | - | 28 |
| **Expenses** | | |
| Operating costs | - | 20 |
| Amortization | 681 | 904 |
| Temporary mine shutdown (notes 1 and 6) | 119 | 505 |
| General and administrative | 1,753 | 1,169 |
| Stock-based compensation (notes 9(b)(i) and (c)(i)) | 215 | 328 |
| Warrant revaluation (note 9(b)) | 733 | 79 |
| Foreign exchange loss (gain) | 2 | (80) |
| Interest on long-term debt | 822 | 688 |
| | 4,325 | 3,613 |
| **Loss before undernoted** | (4,325) | (3,585) |
| Other income | 575 | 141 |
| Interest income | - | 4 |
| **Loss before income taxes and non-controlling interest in consolidated subsidiary's loss** | (3,750) | (3,440) |
| Recovery of future income taxes (note 4) | - | - |
| Non-controlling interest in consolidated subsidiary's loss | - | (2) |
| **Loss and comprehensive loss for the year** | (3,750) | (3,438) |
| **Deficit and comprehensive loss - Beginning of year** | (51,527) | (48,089) |
| Changes in accounting policies (note 2(n)) | 22 | - |
| **Deficit and comprehensive loss - End of year** | (55,255) | (51,527) |
| 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
Consolidated Statements of Cash Flows
**For the years ended September 30, 2007 and 2006**

(expressed in thousands of U.S. dollars)

| | 2007 $ | 2006 $ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Loss for the year | (3,750) | (3,438) |
| Non-cash items | | |
| Amortization | 681 | 904 |
| Accretion of interest on long-term debt (note 10) | 183 | 327 |
| Foreign exchange loss (gain) | 2 | (80) |
| Non-controlling interest in consolidated subsidiary's loss | - | (2) |
| Non-cash employee share compensation (notes 9(b) and (c)) | 37 | 321 |
| Non-cash non-employee share compensation | - | 7 |
| Non-cash employee options | 178 | - |
| Non-cash warrant revaluation | 733 | 79 |
| | (1,936) | (1,882) |
| Changes in non-cash working capital relating to operations (note 18) | 242 | (1,066) |
| | (1,694) | (2,948) |
| **Investing activities** | | |
| Additions to mining equipment | (61) | (54) |
| Additional costs capitalized (note 7) | (429) | (186) |
| Decrease in restricted cash (note 10(a)) | - | 418 |
| Other assets | - | (3) |
| Receivable from an officer and director | (43) | - |
| Recoverable taxes | (270) | - |
| Sale of assets | - | 4 |
| Insurance recoveries | - | 238 |
| | (803) | 417 |
| **Financing activities** | | |
| Shares issued (note 9(b)) | 3,019 | 452 |
| Warrants exercised (note 9(b)) | 89 | 700 |
| Options exercised | - | 144 |
| Convertible secured debentures (note 10(c)) | - | 1,600 |
| Increase in loan origination expenses (note 10(a)) | - | (17) |
| Repayment of capital leases | (40) | (26) |
| Repayment of debt (note 10(a)) | (311) | (311) |
| | 2,757 | 2,542 |
| Effect of foreign exchange on cash and cash equivalents held in foreign currency | 12 | 11 |
| Increase in cash during the year | 272 | 22 |
| **Cash - Beginning of year** | 72 | 50 |
| **Cash - End of year** | 344 | 72 |

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 and nature of operations

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 amounts 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 snowstorm caused damage to the electrical and air compressor equipment at the Pimenton mine's 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 labour 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 early 2008.

As at September 30, 2007, the Company reported a deficit and comprehensive loss of approximately $55.3 million and a working capital deficiency of approximately $3.2 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 on obtaining adequate funding, including insurance remediation, 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 on the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the projects and on future profitable production or proceeds from the disposition thereof.

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

## 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 accounting policies are summarized as follows:

### a) Basis of consolidation

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

### c) 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 sheets and are amortized into operations using the units of production method (UOP), based on proven and probable mineral reserves and mineral resources.

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

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:

- 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 will be 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 on 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 on 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 income. The amount of the liability is subject to remeasurement at each reporting period. These obligations are associated with long-lived assets for which there is a legal obligation to settle under existing or enacting laws, statutes or contracts. The related assets are amortized using the 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.

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

**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.

**g) Measurement uncertainty**

The preparation of consolidated 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, future income 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 sale 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. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date. The share price at the grant date is considered to be equal to the closing price of the Company’s stock on the TSX on the business day preceding the grant date.

**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 consolidated balance sheet dates that are expected to apply when the assets are realized or the liabilities are settled. Net future income tax assets are offset by valuation allowances to the extent that they are considered not more likely than not to be realized.

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

**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 restricted cash**

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

**m) Financial instruments**

The Company's financial instruments consist of cash, restricted cash, receivables, note receivable, current liabilities 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 consolidated balance sheets 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.

**n) Changes in accounting policies for financial instruments, comprehensive income and hedges**

On October 1, 2006 the Company adopted three new accounting standards that were issued by The Canadian Institute of Chartered Accountants (CICA): Section 1530, "Comprehensive Income;" Section 3855, "Financial Instruments - Recognition and Measurement;" and Section 3865, "Hedges." These standards were adopted prospectively but calculated retrospectively; accordingly, the comparatives for the prior year have not been restated.

**Comprehensive income**

Section 1530 introduces comprehensive income, which consists of net income and other comprehensive income (OCI). OCI would include unrealized gains and losses, such as unrealized gains and losses on available-for-sale investments as well as changes in the fair value on derivative instruments designated as cash flow hedges or hedges.

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

**Hedges**

Section 3865 provides alternative treatment to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13, “Hedging Relationships,” and the hedging guidance in Section 1650, “Foreign Currency Translation,” by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

The Company has evaluated the impact of Section 1530 and Section 3865 on its consolidated financial statements and determined that no adjustments are currently required.

**Financial instruments**

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Financial assets and financial liabilities are recognized when the Company becomes a party to a contractual provisions of the financial instruments. Under this standard, all financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends upon whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For financial instruments classified as other than held-for-trading, transaction costs are added to the carrying amount of the financial asset or liability on initial recognition and amortized using the effective amortization method.

The Company has evaluated the impact of Section 3855 on its consolidated financial statements and recorded a transition adjustment to opening deficit in the amount of $22,000 to reflect the impact of adopting the effective interest rate method.

## 3 Basic and diluted loss per share

| | 2007<br>$ | 2006<br>$ |
|---|---|---|
| Loss for the year | 3,750 | 3,438 |
| Weighted average number of shares outstanding - basic | 506,231,152 | 449,825,797 |
| 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 amounts, since in the context of reported losses for the years, such effect would be anti-dilutive.

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

## 4 Income taxes

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

| | **2007 $** | **2006 $** |
|---|---|---|
| Loss before income taxes and non-controlling interest in consolidated subsidiary's loss | 3,750 | 3,440 |
| Income tax recovery at Canadian federal and provincial statutory rates (2007 - 36.12%; 2006 - 38.12%) | 1,355 | 1,311 |
| Effect of expenses incurred in non-taxing jurisdictions | (44) | (57) |
| Effect of difference in regional income taxes compared with Canadian rates | (278) | (375) |
| Expenses not deductible for income tax purposes | (363) | (174) |
| Expenses deductible for income tax purposes, but not for book purposes | 85 | 84 |
| Effect of losses incurred for book purposes, the income tax benefits of which have not been recognized in these consolidated financial statements | (755) | (789) |
| (Recovery of) provision for future income taxes | - | - |

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

| | **2007 $** | **2006 $** |
|---|---|---|
| Mining properties, plant and equipment and exploration properties | 3,380 | 3,368 |
| Non-capital losses carried forward | 4,446 | 4,148 |
| | 7,826 | 7,516 |
| Valuation allowance | (7,826) | (7,516) |
| Net future income tax liability | - | - |

As at September 30, 2007, the Company and its subsidiaries had available Canadian income tax loss carry-forwards of approximately $6.0 million that expire between 2007 and 2027, Chilean tax loss carry-forwards of approximately $8.2 million that can be carried forward indefinitely and U.S. tax loss carry-forwards of approximately $0.8 million that can be carried forward 20 years.

The Company has recorded a valuation allowance in the amount of $7,826,000 as at September 30, 2007 (2006 - $7,516,000) 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.

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

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

| | | | **2007** |
|---|---|---|---|
| | **Cost**<br>**$** | **Accumulated amortization**<br>**$** | **Net**<br>**$** |
| Office furniture and equipment | 97 | 97 | - |
| Vehicles | 50 | 50 | - |
| | 147 | 147 | - |

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

Amortization expense was $4,000 for 2007 (2006 - $4,000).

## 6 Mining properties, plant and equipment

| | | | | **2007** |
|---|---|---|---|---|
| | **Estimated useful life** | **Cost**<br>**$** | **Accumulated amortization**<br>**$** | **Net**<br>**$** |
| Mining properties | UOP | 3,969 | 740 | 3,229 |
| Buildings and equipment | 1-7 years | 6,238 | 4,638 | 1,600 |
| Mine development | UOP | 8,402 | 1,357 | 7,045 |
| | | 18,609 | 6,735 | 11,874 |

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

| | | | | **2006** |
|---|---|---|---|---|
| | **Estimated useful life** | **Cost $** | **Accumulated amortization $** | **Net $** |
| 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 |
| | | 18,428 | 6,198 | 12,230 |

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 snowstorm (note 1), and it is currently anticipated that operations will resume in 2008, provided the necessary financing can be obtained. Temporary mine shutdown expenses were $119,000 in 2007 (2006 - $505,000). Accordingly, recoverable taxes in the amount of $2,456,000 have been classified as a long-term asset in the consolidated balance sheets. Recoverable taxes in the amount of $372,000 as at September 30, 2007 (2006 - $354,000) represent IVA taxes paid on the 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 the 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.

The cost of assets under capital leases and the related accumulated amortization amounted to $nil in 2007 (2006 - $258,000) and $nil in 2007 (2006 - $53,000), respectively.

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

## 7 Exploration properties

| | Catedral (a) $ | Cal Norte (b) $ | Breccia (c) $ | Chachas (d) $ | Tordillo (e) $ | Bandurrias (f) $ | Other (g) $ | Total $ |
|---|---|---|---|---|---|---|---|---|
| Mining properties | | | | | | | | |
| 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 |
| Additional costs capitalized | - | - | - | - | - | - | - | - |
| Writedowns | - | - | - | - | - | - | - | - |
| Balance as at September 30, 2007 | 1,092 | 54 | - | 77 | - | - | 10 | 1,233 |
| Exploration costs | | | | | | | | |
| 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 |
| Additional costs capitalized | 41 | 113 | - | 41 | 94 | 131 | 9 | 429 |
| Writedowns | - | - | - | - | - | - | - | - |
| Balance as at September 30, 2007 | 2,347 | 1,409 | 411 | 95 | 112 | 131 | 76 | 4,581 |
| Summary - 2007 | | | | | | | | |
| Mining properties | 1,092 | 54 | - | 77 | - | - | 10 | 1,233 |
| Exploration costs | 2,347 | 1,409 | 411 | 95 | 112 | 131 | 76 | 4,581 |
| Total as at September 30, 2007 | 3,439 | 1,463 | 411 | 172 | 112 | 131 | 86 | 5,814 |
| 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 |

### a) Catedral

The Company owns 50.1% of the Catedral prospect through its subsidiaries Catedral and CM Catedral, which encompasses the Catedral and Rino limestone deposits. The deposits are hosted by the Los Valdes Formation, which stretches along a significant distance of the high Cordillera. Two officers and directors hold the remaining non-controlling interest in Catedral (note 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 CA$0.20 per share. The Company can prepay the $150,000 at any time.

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

**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, 2007, 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. 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 Rio Tinto's 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.

**e) Tordillo**

Tordillo was acquired by the Company in 2006.

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

**f) Bandurrias**

The property was acquired in August, 2007 by the Company by way of an option agreement for the property. Under the terms of the option agreement, US$30,000 was paid on signing, US$70,000 is due in six months, followed by four payments of US$100,000 every six months, with a final payment at 36 months of US$600,000. The balance of the US$6,500,000 price or US$5,400,000 will be paid in the form of a 5% Net Smelter Royalty.

**g) Other**

During the years ended September 30, 2007 and 2006, no other exploration costs and mining properties were expensed.

## 8 Receivables

Receivables consist of:

| | 2007 $ | 2006 $ |
|---|---|---|
| Sundry receivables | 73 | 114 |
| Receivable from an officer and director (note 16) | - | 22 |
| | 73 | 136 |

## 9 Share capital

**a) Authorized capital**

The authorized capital of the Company consists of an unlimited number of common shares, with no par value.

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

**b) Issued and outstanding**

| | 2007 | |
|---|---|---|
| | **Number of shares** | **Amount $** |
| Outstanding - Beginning of year | 465,297,133 | 60,321 |
| Share issuance (i) | 2,000,000 | 71 |
| Private placement (ii) | 2,000,000 | 87 |
| Share issuance (iii) | 240,000 | 9 |
| Warrants exercised (iv) | 2,190,039 | 138 |
| Private placement (v) | 34,156,000 | 740 |
| Private placement (vi) | 20,000,000 | 564 |
| Share issuance (vii) | 3,266,588 | 118 |
| Private placement (viii) | 2,800,000 | 75 |
| Share issuance (ix) | 6,501,212 | 294 |
| Private placement (x) | 26,431,515 | 991 |
| Share issuance (xi) | 1,000,000 | 37 |
| Share issuance (xii) | 2,672,645 | 99 |
| Share issuance (xiii) | 687,777 | 25 |
| Share issuance (xiv) | 1,600,000 | 59 |
| Outstanding - End of year | 570,842,909 | 63,628 |

| | 2006 | |
|---|---|---|
| | **Number of shares** | **Amount $** |
| Outstanding - Beginning of year | 433,042,949 | 58,688 |
| Warrants exercised (xv) | 16,635,628 | 814 |
| Options exercised (xvi) | 2,344,286 | 181 |
| Compensation (xvii) | 1,500,000 | 106 |
| Private placement (xviii) | 10,000,000 | 452 |
| Services (xix) | 1,774,270 | 80 |
| Outstanding - End of year | 465,297,133 | 60,321 |

i) On November 7, 2006, the Company issued 2,000,000 common shares in settlement of an employee termination liability of $121,452. The shares were valued at $70,834, using the TSX closing price on November 6, 2006, resulting in a gain of $50,618 credited to other income.

ii) On November 17, 2006, the Company sold through a private placement 2,000,000 common shares at CA$0.05 per share for net proceeds of $87,596.

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

iii) On January 2, 2007, the Company issued 240,000 common shares for consulting services. These shares were valued at $9,267 using the TSX closing price on January 2, 2007.

iv) On January 18, 2007 participants in the October 21, 2004 private placement exercised 2,190,039 warrants at a price of CA$0.04 per share for net proceeds of $74,561. The fair value of $63,633 assigned to these warrants was transferred to share capital.

v) On February 23, 2007, the Company sold through a private placement 34,156,000 units at CA$0.04 per unit, consisting of one common share and one common share purchase warrant to purchase a further common share at CA$0.06 per share at any time within 24 months of the date of issue. In connection with the private placement the Company also issued 2,390,000 broker units, exercisable at CA$0.04 per unit, at any time within 24 months of the date of issue. Each broker warrant consists of one common share and one common share purchase warrant to purchase a further common share at CA$0.06 per share at any time within 24 months of the private placement date. Net proceeds of the placement were $979,994, of which $200,482 was assigned to the warrants and $39,294 to the broker units. The fair value of the warrants was assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 4.12%, no dividend and a volatility factor of 50%.

vi) On March 6 and March 27, 2007, the Company sold through a private placement 20,000,000 units at CA$0.04 per unit, consisting of one common share and one common share purchase warrant to purchase a further common share at CA$0.06 per share at any time within 24 months of the date of issue. Net proceeds of the placement were $678,936 consisting of a $594,048 reduction of amounts due to officers and directors of the Company and $84,888 cash, of which $115,052 was assigned to the warrants. The fair value of the warrants was assigned using the Black-Scholes valuation model assuming a risk-free interest rate of 3.90%, no dividend and a volatility factor of 50%.

vii) The Company entered into agreements with a firm to provide financial and management consulting services. The agreements provide that the Company issue common shares on a monthly basis as compensation for such services. As of March 31, 2007, 3,266,588 common shares were due for such services and are shown as outstanding. These shares were valued at $117,937 using the TSX monthly closing prices during the year.

viii) On April 7, 2007, the Company sold through a private placement 2,800,000 units at CA$0.04 per unit, consisting of one common share and one common share purchase warrant to purchase a further common share at CA$0.06 per share at any time within 24 months of the date of issue. Net proceeds of the placement were $96,841, of which $21,647 was assigned to the warrants. The fair value of the warrants was assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 2.88%, no dividend and a volatility factor of 50%.

ix) On May 15 and May 31, 2007, the Company terminated agreements with a firm providing financial and management consulting services. It was agreed to issue 9,767,000 common shares in settlement of all amounts due. As of March 31, 2007, 3,266,588 common shares were due for such services and were shown as outstanding. These shares were valued at $117,937 using the TSX monthly closing prices during the period. The balance of 6,501,212 common shares was valued at $294,029, using the TSX closing prices on May 15 and May 31, 2007.

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

x) On June 20, 2007, the Company sold through a private placement 26,431,515 units at CA$0.05 per unit, consisting of one common share and one common share purchase warrant to purchase a further common share at CA$0.07 per share at any time within 36 months of the date of issue. Net proceeds of the placement were $1,174,978, of which $184,076 was assigned to the warrants. The fair value of the warrants was assigned using the Black-Scholes valuation model assuming a risk-free interest rate of 3.23%, no dividend and a volatility factor of 50%. The subscriber, an officer and director of the Company, subscribed and paid for 31,360,000 units. The remaining 4,928,485 units can be issued on the same terms provided shareholder approval is obtained prior to October 26, 2007. The balance of $220,022 is shown in amounts due to related parties.

xi) On June 28, 2007, the board of directors approved the issuance of 1,000,000 bonus shares to an officer (the president) and director. The shares were valued at $37,348, using the TSX closing price on the preceding day and expensed as stock-based compensation.

xii) On August 13, 2007, 2,672,645 shares were issued to two officers (executive-vice-president, claims and land management and executive-vice-president and director of exploration) who are also directors, in payment of interest due to them on the 10% convertible subordinated debentures. The shares were valued at $98,561, using the TSX closing price of the preceding date and resulted in a gain of $14,298.

xiii) On August 13, 2007, 687,777 shares were issued to two vendors in settlement of amounts due them. The shares were valued at $25,364, using the TSX closing price of the preceding date and resulted in a gain of $7,247.

xiv) On August 13, 2007, 1,600,000 shares were issued to two vendors in settlement of amounts due to them. The shares were valued at $59,004, using the TSX closing price of the preceding date and resulted in a gain of $83,189.

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

On October 31, 2005, the TSX approved a reduction in the exercise price from CA$0.090 to CA$0.055 per common share for the common share purchase warrants and the broker warrants and the issuance of an additional common share purchase warrant to purchase a further common share at CA$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 value of the modified warrants was assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 2.55%, no dividend and a volatility factor of 50%.

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

On November 8, November 16 and November 30, 2005, 16,635,628 warrants were exercised at a price of CA$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 CA$0.07 per share at any time within 24 months of the date of issue. Net proceeds of the exercise of these 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 were 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.

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

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

xvii) 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.

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

xix) 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 CA$0.05 per share, for a total fair value of $79,757, equal to the amount of the liability discharged.

**c) Share option plan**

The Company has a share option plan (the Plan) whereby, from time to time at the discretion of the Board of Directors, share options are granted to directors, officers, employees and certain consultants. The maximum number of common shares issuable under the Plan is 105,000,000 common shares and 20,000,000 common shares issuable under the share bonus plan, within the Plan to eligible participants. The Board of Directors determines the vesting period at its discretion.

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

A summary of the Company's Plan for the years ended September 30 is as follows:

| | | | **2007** |
|---|---|---|---|
| | **$** | **Number of options** | **Weighted average exercise price CA$** |
| Outstanding - Beginning of year | 842 | 58,895,000 | 0.080 |
| Changes during the year | | | |
| Granted (i) | 177 | 10,000,000 | 0.040 |
| Expired | - | (7,500,000) | 0.069 |
| Outstanding - End of year | 1,019 | 61,395,000 | 0.074 |
| Exercisable - End of year | | 61,095,000 | |

| | | | **2006** |
|---|---|---|---|
| | **$** | **Number of options** | **Weighted average exercise price CA$** |
| Outstanding - Beginning of year | 680 | 57,525,000 | 0.080 |
| Changes during the year | | | |
| Granted (ii) | 215 | 5,714,286 | 0.065 |
| Vested amortized fair value | 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 | |

i) On June 28, 2007, the president of the Company was granted 10,000,000 options, exercisable at CA$0.04 per share and expiring on June 28, 2012. These options were fair valued at $177,000, using the Black-Scholes valuation model, assuming a risk-free rate of 3.58%, no dividend, and a volatility factor of 50% and expensed as stock-based compensation. All these options vested immediately.

ii) On March 1, 2006, 5,714,286 options were granted to officers, directors and employees. These options were fair valued at $215,000 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 Plan were approved by the shareholders on April 18, 2006. All these options vested immediately.

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

The Company has expensed the fair value of the options granted during the year as compensation expense in the amount of $177,000 (2006 - $215,000).

Options outstanding as at September 30 are as follows:

**2007**

| Exercise price $ | Number of options | Weighted average remaining contractual life (years) | Weighted average exercise price CA$ | Options exercisable |
|---|---|---|---|---|
| 0.045 | 275,000 | 0.9 | 0.045 | 275,000 |
| 0.060 | 460,000 | 0.9 | 0.060 | 460,000 |
| 0.090 | 8,000,000 | 2.0 | 0.090 | 8,000,000 |
| 0.070 | 2,000,000 | 2.4 | 0.070 | 2,000,000 |
| 0.070 | 13,695,714 | 2.5 | 0.070 | 13,695,714 |
| 0.065 | 5,714,286 | 3.4 | 0.065 | 5,714,286 |
| 0.090 | 21,250,000 | 5.5 | 0.090 | 20,950,000 |
| 0.040 | 10,000,000 | 5.7 | 0.040 | 10,000,000 |
| | 61,395,000 | 4.1 | 0.074 | 61,095,000 |

**2006**

| Exercise price $ | Number of options | Weighted average remaining contractual life (years) | Weighted average exercise price CA$ | 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 |

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

## 10 Long-term debt

| | | 2007 | 2006 |
|---|---|---|---|
| **Description** | **Interest rate** | **Principal $** | **Principal $** |
| OPIC note, due on December 15, 2008 (a) | 8.27% | 705 | 800 |
| OPIC note, due on December 15, 2008 (a) | 8.39% | 921 | 1,067 |
| Pimenton note, due on December 15, 2009 (b) | 5.00% under certain conditions | 1,506 | 1,423 |
| Convertible secured debentures, due March 31, 2013 (c) | | 828 | 753 |
| Capital leases | | - | 40 |
| Loan origination expense | | (142) | - |
| | | 3,818 | 4,083 |
| Less: Current portion | | 1,244 | 973 |
| Long-term debt | | 2,574 | 3,110 |

Interest paid by the Company was $77,933 and $177,750 for the years ended September 30, 2007 and 2006, respectively.

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

| | **Long-term debt $** |
|---|---|
| Fiscal year ended September 30, | |
| 2008 | 1,244 |
| 2009 | 312 |
| 2010 | 1,944 |
| 2011 | - |
| 2012 and thereafter | 1,600 |
| | 5,100 |
| Less: Future accretion | 1,282 |
| | 3,818 |

a) CM Pimenton, a subsidiary of the Company entered into a loan agreement with Overseas Private Investment Corporation (OPIC) dated December 29, 2003. The Company was required to establish a restricted cash account. The balance of this restricted account as at September 30, 2007 and 2006 was $22,000.

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

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 Pimenton owned by SAGC Pimenton Limited and Til Til. 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, 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, Pimenton reached physical completion and on May 25, 2004, 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 amortized cost using the effective interest method.

Loan origination expenses of $142,000 as at September 30, 2007 (2006 - $248,000) are primarily associated with the OPIC loan. Prior to the implementation of Section 3855 these expenses were deferred and amortized over the life of the loan. Effective October 1, 2006, these expenses were added to the carrying amount of debt and amortized using the effective interest rate method.

The loan contains financial and operating covenants.

Due to events at the mine (notes 1 and 6), Pimenton advised OPIC that it believes Pimenton will not be in compliance with the financial and operating covenants for the calendar quarters through and until June 30, 2009.

As of September 30, 2007, OPIC has granted Pimenton waivers with respect to the financial and operating events of default discussed above until June 30, 2009.

b) In 1996, Pimenton, a wholly owned subsidiary of the Company, purchased from Messrs. Thomson (an executive-vice-president-director of exploration 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.

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

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 $1,584,856 as at September 30, 2007 (2006 - $1,422,545), with $162,311 being charged to interest expense in 2007 and 2006. By December 15, 2009, the carrying amount of the notes will have been accreted to $1,943,561, the face amount due on maturity.

Interest on the Pimenton note is 5% per annum, payable only at the end of any 90-day consecutive period and only for that period in which the price of gold trades above US$300 per ounce.

c) On April 13, 2006, the Company completed a private placement of $1,600,000 of convertible secured debentures with a seven-year maturity and bearing interest at LIBOR plus 2% to two officers (executive-vice-president-director of exploration and executive-vice-president-director, claims and land management) and directors of the Company (note 16). The Company had 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 sheets. 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 debenture 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 $883,534, as at September 30, 2007 (2006 - $753,364), with $130,170 being charged to interest expense in 2007 (2006 - $60,627). By March 31, 2013, the carrying amount 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 | $ |
|---|---|---|
| Balance - September 30, 2005 | 105,699,966 | 1,712 |
| Modified (note 9(b)(xv)) | - | 79 |
| Exercised (note 9(b)(xv)) | (16,635,628) | (266) |
| Issued (note 9(b)(xv)) | 16,635,628 | 153 |
| Expired warrants (a) | (15,178,750) | (234) |
| Balance - September 30, 2006 | 90,521,216 | 1,444 |
| Exercised (note 9(b)(iv)) | (2,190,039) | (64) |
| Issued (note 9(b)(v)) | 34,156,000 | 201 |
| Issued (note 9(b)(v)) | 2,390,000 | 39 |
| Issued (note 9(b)(vi)) | 20,000,000 | 115 |
| Issued (note 9(b)(viii)) | 2,800,000 | 22 |
| Issued (note 9(b)(x)) | 26,431,515 | 184 |
| Modified (b) | - | 14 |
| Modified (c) | - | 412 |
| Modified (d) | - | 89 |
| Modified (e) | - | 218 |
| Issued (f) | 1,474,680 | 14 |
| Balance - September 30, 2007 | 175,583,372 | 2,688 |

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

b) On October 21, 2004, the Company sold through a private placement 40,000,000 units at CA$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 CA$0.09 per share at any time within 24 months of the date of issue. These 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 a risk-free interest rate of 4.07%, no dividend and a volatility factor of 50%.

c) In connection with a private placement that closed on December 10, 2003, the Company issued 40,000,000 common share purchase warrants exercisable at CA$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 broker warrants exercisable at CA$0.105 per common share and expiring on December 10, 2008. The broker warrants were assigned a value of $70,306.

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

On November 21, 2006, the TSX approved a reduction in the exercise price from CA$0.105 to CA$0.040 per common share for the common share purchase warrants and the broker 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 a risk-free interest rate of 4.00%, no dividend and a volatility factor of 50%.

d) On January 15, 2007, the TSX approved an extension of the exercise date of the warrants initially issued on December 10, 2003 from January 19, 2007 to March 16, 2007. The fair value of these extended warrants of $118,578, in excess of the fair value of the original extended warrants immediately prior to the extension date of $29,749, will be charged to expense. The fair values of the warrants were assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 4.02%, no dividend and a volatility factor of 50%.

e) On March 14, 2007, the TSX approved a further extension of the exercise date of the warrants initially issued on December 10, 2003 from March 16, 2007 to November 1, 2007. The fair value of these extended warrants of 239,203, in excess of the fair value of the original extended warrants immediately prior to the extension date of $20,972, will be charged to expense. The fair values of the warrants were assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 4.09%, no dividend and a volatility factor of 50%.

f) On May 15, 2007, the Company issued 1,474,680 warrants exercisable at CA$0.06 per share, expiring in 24 months in connection with the termination of agreement with a firm providing financial and management consulting services.

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

| | | **2007** |
|---|---|---|
| **Number of warrants outstanding** | **Weighted average remaining warrant life (years)** | **Weighted average exercise price CA$** |
| 78,031,177 | 0.09 | 0.070 |
| 65,120,680 | 1.41 | 0.051 |
| 26,431,515 | 2.72 | 0.070 |
| 6,000,000 | 3.21 | 0.250 |
| 175,583,372 | 0.69 | 0.103 |

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

| | | **2006** |
|---|---|---|
| **Number of warrants outstanding** | **Weighted average remaining warrant life (years)** | **Weighted average exercise price CA$** |
| 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 |

## 12 Contributed surplus

| | $ |
|---|---|
| Balance - September 30, 2005 | 451 |
| Warrants expired (a) | 234 |
| Options expired (b) | 23 |
| Balance - September 30, 2006 and 2007 | 708 |

a) Warrants expired during 2006 (note 11(b))
b) 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 $1,466,000 is expected to be incurred over a period extending to seven years. These estimated cash flows are discounted using a credit-adjusted risk-free rate of 7.5%. The actual asset retirement obligation and closure costs may differ significantly based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

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

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

| | 2007<br>$ | 2006<br>$ |
|---|---|---|
| Balance - Beginning of year | 635 | 778 |
| Increase in (reduction of) liabilities (i) | 249 | (143) |
| Balance - End of year | 884 | 635 |

i) The increase (reduction) is due to changes in estimated future 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. The Company has operations as two reportable segments, Pimenton and corporate.

The Company's Pimenton segment includes a gold mine and mill operating in Chile. The corporate segment includes all exploration and development activities, primarily in Chile.

Of the total Company assets of $20,990,000 and $20,644,000 as at September 30, 2007 and 2006, respectively, $14,851,000 and $14,817,000, respectively, relate to Pimenton.

| | | | 2007 |
|---|---|---|---|
| | Pimenton<br>$ | Corporate<br>$ | Total<br>$ |
| Amortization | 678 | 3 | 681 |
| Temporary mine shutdown | 119 | - | 119 |
| General and administrative | 275 | 1,478 | 1,753 |
| Stock-based compensation | - | 215 | 215 |
| Warrant revaluation | - | 733 | 733 |
| Foreign exchange | 2 | - | 2 |
| Interest expense | 648 | 174 | 822 |
| | 1,722 | 2,603 | 4,325 |
| Other income | (420) | (155) | (575) |
| Loss and comprehensive loss for the year | 1,302 | 2,448 | 3,750 |

(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) |
| Operating costs | 20 | - | 20 |
| Amortization | 900 | 4 | 904 |
| Temporary mine shutdown | 505 | - | 505 |
| General and administrative | 473 | 696 | 1,169 |
| Stock-based compensation | - | 328 | 328 |
| Warrant revaluation | - | 79 | 79 |
| Foreign exchange (gain) loss | (91) | 11 | (80) |
| Interest on long-term debt | 572 | 116 | 688 |
| | 2,351 | 1,234 | 3,585 |
| Other income | (141) | - | (141) |
| Interest income | - | (4) | (4) |
| Non-controlling interest | - | (2) | (2) |
| Loss and comprehensive loss for the year | 2,210 | 1,228 | 3,438 |

Of the corporate segment’s losses of $2,451,000 and $1,228,000 in 2007 and 2006, respectively, approximately $41,000 of loss and $8,000 of income, respectively, relate to Chilean activities, with the remainder reflecting primarily corporate’s activities in Canada, the United States and Bermuda.

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

## 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 CA$0.20 per common share; the Company can prepay this amount at any time. | 275 | 125 |
| Bandurrias | Bandurrias was acquired in August, 2007 by the Company by way of an option agreement of the property. Under the terms of the option agreement US$30,000 was paid on signing; US$70,000 is due in six months followed by four payments of US$100,000 every six months with a final payment at 36 months of US$600,000. The balance of the US$6,500,000 price or US$5,400,000 will be paid in the form of a 5% Net Smelter Royalty | 6,500 | 30 |
| Cal Norte | Capital contribution of $1,800,000 to earn 60% equity interest (note 7(b)) | 1,800 | 1,255 |

On March 13, 2007, the Company entered into a LOU with a subsidiary of Anglo American (Anglo), which gives Anglo the option to enter into a joint venture agreement for the exploration and development of the porphyry copper system at Pimenton and will serve as a basis for such joint venture agreement. The LOU states, "In this LOU, Hernandez and Thomson are collectively referred to as the Owners. Under the terms of this ownership royalty, the owners are entitled to receive a sliding scale of 5% to 6% Net Smelter Return Royalty on any future production from the Property. SAGC Pimenton Limited has renegotiated in good faith the Net Smelter Return Royalty paid to the owners who have agreed to be compensated by SAGC Pimenton Limited for a reduction from a sliding scale of 5% to 6% Net Smelter Return Royalty, down to a 3% Net Smelter Return Royalty." The Owners are directors and officers of the Company. The Company will engage a qualified independent third party to determine the fair value of the royalty reduction and the two officers and directors have agreed to accept 40% of the fair value to be paid by the Company to reduce the Net Smelter Royalty to 3% and if required to receive their compensation in common shares of the Company at the then existing market value.

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## 16 Related party transactions

A company owned by chief executive officer, who is also a director, billed the Company $97,377 in 2007 (2006 - 82,946) for the provision of office space and services by the Company.

A law firm, of which a former secretary of the Company is a partner, billed $46,680 in 2006 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 as at September 30, 2007 and 2006 is from chief executive officer who is also a director of the Company. It is a non-interest-bearing note due on or before an extended due date of June 30, 2009, collateralized by 6,532,000 common shares of the Company owned by this officer and director. As at September 30, 2007, non-interest-bearing advances to this officer and director amounted to $43,025 (2006 - $21,964) and are included in long-term receivables.

The Chief Financial Officer billed $108,694 for accounting services rendered to the Company in 2007 (2006 - 102,935). Amounts due to related parties include payables to this officer of $196,940 and $129,102 for such services.

During 2007, the executive-vice-president-director, claims and land management, who is also a director of the Company, purchased from a non-related party its interest in the Pimenton notes and royalty. The fair value of this note was $755,076 at September 30, 2007 and interest expense was $48,746 in 2007. Amounts due to related parties include $146,359 for interest and $91,802 for royalties as at September 30, 2007.

On June 20, 2007, the Company sold through a private placement 26,431,515 units at CA$0.05 per unit, consisting of one common share and one common share purchase warrant to purchase a further common share at CA$0.07 per share at any time within 36 months of the date of issue. Net proceeds of the placement were $1,174,978. The subscriber, the executive-vice-president-director, claims and land management, who is also a director of the Company, subscribed and paid for 31,360,000 units. The remaining 4,928,485 units can be issued on the same terms provided shareholder approval is obtained prior to October 26, 2007. The balance of $220,022 is shown in amounts due to related parties.

Amounts due to related parties include $145,362 and $96,930 as at September 30, 2007 and 2006, respectively, for interest due to executive-vice president-director of exploration who is also a director of the Company who holds one of the Pimenton notes in the fair value amounts of $750,217 and $708,977 as at September 30, 2007 and 2006, respectively (note 10(b)). In addition, amounts due to related parties include $91,802 and $91,802 at September 30, 2007 and 2006, respectively, 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 as at September 30, 2006 from the executive-vice-president-director, claims and land management and officers and executive-vice-president-director of exploration, both 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

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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.

The executive-vice-president-director, claims and land management and the executive-vice president-director of exploration, both directors of the Company, hold the convertible secured debentures (note 10(c)). Interest expense was $250,394 and $54,100 for 2007 and 2006, respectively, Amounts due related parties include payables to these officers of $59,001 and $54,100 as at September 30, 2007 and 2006, respectively, 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

| | **2007** **$** | **2006** **$** |
|---|---|---|
| Changes in non-cash working capital relating to operations | | |
| Receivables | | |
| Trade | - | 3 |
| Sundry | 63 | 83 |
| Materials and supplies | (3) | 28 |
| Accounts payable and accrued liabilities, excluding interest in accrued liabilities | 42 | (1,205) |
| Taxes payable (IVA) | 68 | 30 |
| Amounts due to related parties | 72 | (5) |
| | 242 | (1,066) |
| Significant non-cash financing and investing activities | | |
| Options | - | 37 |
| Shares and warrants issued | 673 | 186 |
| No income taxes were paid during 2007 and 2006 | | |
| Total interest paid | 78 | 178 |

## 19 Comparative amounts

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

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

## 20 Subsequent events

On October 21, 2004, the Company sold through a private placement 40,000,000 units at CA$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 CA$0.09 per share at any time within 24 months of the date of issue. These 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 a risk-free interest rate of 4.07%, no dividend and a volatility factor of 50%.

On October 3, 2007, the TSX agreed to further extend the expiration date on the 20,000,000 warrants from October 22, 2007 to April 22, 2008. The fair value of these modified warrants of $6,028, 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 a risk-free interest rate of 4.21%, no dividend and a volatility factor of 50%.

On November 8, November 16 and November 30, 2005, 16,635,628 warrants were exercised at a price of CA$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 CA$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 October 25, 2007, the TSX agreed to extend the expiration date on the 16,635,628 warrants from November 8, November 16 and November 30, 2007 to January 31, 2008. The fair value of these modified warrants of $5,155, 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 a risk-free interest rate of 3.97%, no dividend and a volatility factor of 50%.

On December 17, 2007, the Company sold through a private placement 92,375,000 units at CA$0.0416 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 CA$0.06 per share at any time within two years of the date of issue. In connection with this private placement, the Company also issued 5,616,937 broker warrants, each exercisable at CA$0.06 per share, expiring within two years of the date of issue. Net proceeds of the placement were $3,430,209, of which $634,578 was assigned to the warrants and $58,982 was assigned to the broker warrants using the Black-Scholes valuation model, assuming a risk-free interest rate of 4.75%, no dividend and a volatility factor of 50%.