# SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

Annual Report to Shareholders
2008

Listed on the Toronto Stock Exchange
Symbol: SAG

## SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

**Report to Shareholders – 2008**

The Company's activities for its fiscal year ended September 30, 2008, and to the date of this report are summarized below.

**<u>Introduction</u>**

This report provides our shareholders with a summary of the Company's activities at this time. For more detailed information, see the Company's Annual Information Form dated December 18, 2008, on SEDAR, www.sedar.com and the Company's website, www.sagc.com.

The Company further strengthened its Board of Directors with the addition of John Selters, P.E., and Richard J. Lachcik as Directors of the Company and the election of Peter W. Hogg to the position of Chief Financial Officer.

As previously reported, the Company closed a private placement with Global Advisors Management Limited in the amount of $4,000,000 in December 2007. The proceeds of this financing were substantially used for the restart of operations at its Pimenton gold mine.

**<u>The Company</u>**

The Company's primary focus this past year has been to restart operations at its 100% owned Pimenton mine at 50 tons per day and increasing production to 200 tons per day by August 2009. The Company was successful in bringing the mine into commercial production effective October 1, 2008, at 91.43 tons per day or a total of 1,920 tons during the 21 days the plant was in operation. The head grade into the plant averaged 15.43 grams of gold per ton, silver averaged 14.38 grams per ton and copper averaged 1.17% per ton. The recovery rate for gold was 94.4%; for silver was 77.6% and 88% for copper. The remaining ten days of the month work was in progress to make improvements to the mill circuit.

In the month of November 2008, the plant processed 91.96 tons per day or a total of 2,483 tons during its 27 days of operation. The head grade into the plant averaged 14.53 grams of gold per ton, silver averaged 16.95 grams per ton and copper averaged 1.30% per ton. The recovery rate for gold was 90.9%; for silver was 67.3% and 84.6% for copper.

The Company is also engaged in the exploration of other mineral properties. Its exploration and development interests are concentrated in Chile.

The Company currently has interests, through its subsidiary companies in five principal properties, Pimenton (100%), Tordillo (100%), Bandurrias (100%) and La Bella (100%). The Company also holds interests in two limestone projects Catedral/Rino (51.10%) and Cal Norte (60%). All of its projects are located in Chile.

***<u>Pimenton</u>***

Pimenton is located at elevations ranging from 3,000 to 4,000 meters within the San Esteban Comuna in the Los Andes Province of Chile's fifth region, approximately 175 km by road north of Santiago, and

approximately 195 km by road from the Enami smelter at Ventanas. Enami purchases and processes gold/copper concentrate from many of the mines located in central Chile, including Pimenton.
Pimenton's mineral rights are secured by a block of continuous and protective mining claims covering an area of approximately 3,121 hectares (7,708 acres) within a rectangular figure of 6 km north-south by 5 km east-west.

The long-range tailings disposal plan for the Pimenton gold mine is to construct a rock fill dam across the Quebrada at a point 100 meters downstream from the current tailings ponds. The dam will be approximately 200 meters long and approximately 34 meters high in the center. This embankment can be constructed in stages over a two to four year period and will hold an estimated 1,100,000 tons of tailings.

Design and permitting of this tailings deposit was approved by SERNAGEOMIN, the Chilean government mining agency, on December 17, 2004.

***Pimenton – Geology***

The mine site is located on Chile's famous copper porphyry belt along with CODELCO's El Teniente and Andina mines and Anglo American PLC`s Los Bronces mine to the south, and Antofagasta PLC's Pelambres mine to the north.

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

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

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

The veins are typically near vertical, with ore-shoots up to 200 meters in length with a mining width of 70 to 80 centimeters. Systems such as these typically have good vertical continuity.

In addition to these high-grade gold veins, there are lower grade north northwest trending veins. It appears that there were multiple mineralizing events within a structurally complex setting extending over a three by three kilometer area indicating a significant resource potential on which further exploration is needed.

**Pimenton – Current Status**

To restart operations at its Pimenton gold mine, the Company focused its efforts on: 1) repair of damages to the entire roof of the Pimenton plant; 2) preparation of the mine for initial production. 3) restart exploration and development of Esperanza adit, which was completed in July 2008, including driving of crosscuts and raises to increase proven and probable reserves; and 4) start production and prepare to move Pimenton from 50 tons per day to increasing rates of production. The Pimenton mine was declared to be in commercial production effective October 1, 2008.

The operation will primarily utilize the cash flow to increase proven and probable reserves in line with increasing production.

Current plans are to keep the Pimenton mine in operation for 12 months per year.

**Pimenton Porphyry Copper Project**

The Company signed a Letter of Understanding (LOU) with Angle American Norte, S.A. ("Anglo")., formerly Empresa de Mantos Blancos S.A., a wholly-owned subsidiary of Anglo American plc, in March

2007 on its Porphyry system at Pimenton, its wholly-owned subsidiary. Under the terms of the LOU, Mantos drilled 2,000 meters of diamond drill holes before deciding to enter a formal Joint Venture Agreement with the Company. Anglo notified the Company of its intention to enter into a Joint Venture Agreement and work was proceeding on the Agreement when Anglo, on October 30, 2008, informed the Company of its intention to withdraw from further work on the Joint Venture Agreement and the LOU on the project was terminated due to the uncertainty in world commodity prices.

The Company is pleased to have the Pimenton porphyry project back and intends to do additional geochemical work on two drill targets early in 2009 and further drilling on the project in the 2010 exploration season, with funds generated from the Pimenton mine to further expand Rio Tinto's estimated 400,000,000 tons of resource potential at Pimenton.

**Tordillo**

Tordillo was acquired by the Company in 2006 and lies approximately 12 kilometres south east of the Company's Pimenton property. Tordillo is a gold / copper prospect on which the Company will conduct futher explorations in the 2009 -2010 exploration season.

**Bandurrias**

Bandurrias was acquired in August, 2007 by the Company by way of an option agreement. In April, 2008 the Company did not renew its option agreement on Bandurrias on claims covering approximately 1,982 hectares (4,896 acres) in the Fifth Region of Chile and wrote off $214,000 relating to this option agreement, but has acquired approximately 13,400 hectares (33,098 acres) in which the Company owns a 100% interest surrounding the Bandurrias Prospect area.

**La Bella**

The Company has signed an option agreement to earn a 100% interest on claims covering approximately 4,000 hectares (9,840 acres) (the inner circle) and has put down additional claims covering an outer circle which encompasses an additional area of approximately 24,000 hectares (59,280 acres) of claims located 75 kilometers southwest of Santiago, Chile.

A small field crew is prospecting the 28,000 hectares (69,160 acres) of claims held by SAGC for gold veins. In addition, geochemical soil sampling is being carried out on the vein outcrops. Subsequent drilling will be based on geochemical results.

Under the terms of the Option Agreement (inner circle) the Company has paid $30,000 and $70,000 was paid in December, 2008, $200,000 is due on December 2009, $800,000 in December 2010, $900,000 in December 2011 and $1,000,000 in December 2012. The Company will pay a 2 ½% Net Smelter Royalty from production thereafter.

On the outer circle the Company has an obligation to pay $100,000 which was paid in December, 2008, $100,000 is due on December, 2009, $500,000 in December 2010, $700,000 in December 2011, $1,000,000 in December, 2012, $2,600,000 in December 2013. The Company will pay a 2 ½ % Net Smelter Royalty from production thereafter.

On the inner and outer circle the Company has a combined minimum investment obligation of $50,000 in year one, $250,000 in year two and $700,000 in year three.

**Financing Activities**

In November and December 2007, the Company issued a total of 9,936,090 common shares on the exercise of 9,936,090 warrants which expired on November 30, 2007, for net proceeds of Cdn $397,444 or US$390,446.
On December 18, 2007, the Company sold in a private placement 92,375,000 of Units of the Company at Cdn $0.0416, each Unit consisting of one common share of the Company and one half common share purchase warrant exercisable at Cdn $0.06 with an expiration date of 24 months from the closing date. Aggregate proceeds of the offering were Cdn $3,842,800 or US $4,000,000.

During the period from April, 2008 to June 2008 the US $4,000,000 private placement was supplemented by the financing of two directors and officers of the Company of lease purchase agreements to purchase mining equipment for the Pimenton mine totaling $878,349 since paid down to $433,803 as at September 30, 2008. The Company has received conditional approval from the Toronto Stock Exchange to conduct this financing which also has certain restrictions on the lease payments pursuant to the Loan Agreement which the Company has with the Overseas Private Investment Corporation.

On September 9, 2008 $1,913,791 was raised through a non-broker private placement in which three directors, two of whom are also officers of the Company participated to the extent of $1,100,000. These funds and the equipment lease financing have enabled the Company to put its Pimenton mine into production in July, 2008 and to declare commercial production effective October 1, 2008.

On December 12, 2008 the Company received conditional approval from the Toronto Stock Exchange to place Units (the Offering) of up to a maximum of Cdn $485,215. Each Unit will consist of one common share (Common Share) and one half of one common share purchase warrant (each whole such warrant, a warrant) at a price of $0.025 per Unit or up to a maximum of 19,408,620 Units. The placement agent will be paid 8% of the gross proceeds (the proceeds) on subscription of up to 15,123,600 Units. In addition, pursuant to an agreement with the agent, the Corporation will issue to the agent up to a maximum of 1,209,888 common share purchase warrants exercisable for a period of 24 months following the closing at an exercise price of Cdn $0.025.An Officer and Director of the Corporation has agreed to subscribe to $107,125 of the Offering on which no commission or warrants will be issued to Global. $378,090 of the Offering will be used exclusively to fund option payments and exploration on the Company's 28,000 hectares La Bella gold/copper project, which lies 75 kilometers south of Santiago, Chile, and the balance for general corporate purposes

**Write downs and Asset Impairment**

During the Company's year end September 30, 2008 the Company wrote off exploration and mining properties totaling $1,030,000. $867,000 of this total was broken down as follows: Bandurrias $214,000; Chachas Peru $172,000; Breccia $411,000 and various others for $70,000. The write down of $411,000 on the Breccia at Pimenton was work performed by the Company outside of the area of interest of the drilling performed by Rio Tinto and Anglo American Norte S.A. The balance of the $1,030,000 write off of exploration and mining properties of $163,000 represents a write off of recoverable taxes that had been capitalized against these properties.

The Company has taken the decision to expense its explorations costs until it deems the project to have a definitive resource potential as defined by National Instrument 43-101 which is in line with our current accounting policies.

Additionally, the Company has taken the decision to write down its Catedral/Rino project in the amount of $3,492,000 and its Cal Norte project in the amount of $1,534,000 in accordance with Section 3063 –

impairment of long-lived assets. Irrespective of Section 3063 the directors and management of the Company believe these properties will have longer time value to the Company and its shareholders.

The total amount of these write downs as of September 30, 2008 was $6,056,000.

**Conclusion**

This past year has been an exciting year for your Company and we look forward to the upcoming year in achieving our goal of continued expansion of the operations at the Pimenton gold/copper mine.

| Paul DesLauriers<br>Chairman | Stephen W. Houghton<br>Chief Executive Officer |
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Toronto, Canada
December 18, 2008

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**
**FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**
**(Expressed in United States dollars)**

The following discussion is a review of the activities, results of operations and financial condition of South American Gold and Copper Company Limited and its consolidated subsidiaries ("SAGC" or the "Company") for years ended September 30, 2008 and 2007, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of December 16, 2008. The discussion should be read in conjunction with the audited consolidated financial statements of the Company and the notes to those statements. The Company's consolidated financial statements and financial data have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In addition, this discussion contains certain forward-looking statements regarding the Company's businesses and operations. These statements are based on assumptions and judgments of management regarding future events and results. Actual results may differ materially from these statements as a result of a number of factors, many of which are beyond the control of SAGC. For more detail on these factors, refer to the section titled "Risks" in this document.

All dollar amounts are expressed in United States dollars, except as otherwise indicated.

Additional information relating to the Company, including the Company's most recent Annual Information Form, is available on SEDAR at www.sedar.com.

## Forward-looking information

This management's discussion and analysis contains or refers to forward-looking information. All information, other than information regarding historical fact, that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future is forward-looking information. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "may", "could", "potential", "should" "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Such forward-looking information includes, without limitation, information regarding the Company's expected or planned targets with respect to its operations and projects, estimates and/or anticipated levels and grades of future gold and/or copper production, the estimated mine life of the Pimenton gold mine, expectations regarding future production levels at Pimenton, potential mineralization, exploration results and the Company's future exploration plans, the Company's ability to raise sufficient working capital, expectations regarding the Company's plans to become a supplier of lime, development and operational plans and objectives (including delineating

additional mineral resources), expectations regarding the timing for the calculation of mineral reserves, the Company's expectations regarding its dividend policy and the anticipated grade of limestone at the Company's limestone deposits.

The forward-looking information in this management's discussion and analysis reflects the current expectations, assumptions or beliefs of the Company based on information currently available to the Company. With respect to forward-looking information contained in this management's discussion and analysis, the Company has made assumptions regarding, among other things, the Company's ability to generate sufficient cash flow from operations and capital markets to meet its future obligations, the regulatory framework in Chile, with respect to, among other things, permits, licenses, authorizations, royalties, taxes and environmental matters, the ability of management to increase commercial mining operation at Pimenton, and the Company's ability to continue to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company.

Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; capital and operating costs varying significantly from estimates; inflation; changes in exchange rates; fluctuations in commodity prices; delays in achieving planned production levels at the Pimenton gold mine caused by unavailability of equipment, labour or supplies, climatic conditions; inability to delineate additional mineral resources and other factors including, but not limited to, those listed under "Risk Factors".

Any forward-looking information speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

The mineral resource figures referred to in this management's discussion and analysis are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource estimates referred to in this management's discussion and analysis are well established, by their nature resource estimates are imprecise and

depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

**Outstanding share information**

As of December 16, 2008, the Company has issued one class of common shares and has a total of 752,222,339 common shares outstanding. The Company has 186,482,726 common share purchase warrants outstanding, each of which is exercisable for one common share at exercise prices of CA$0.04 to CA$0.25 through December 15, 2010. Share options outstanding as of December 16, 2008, total 89,949,538 of which 73,510,000, are currently exercisable at prices of CA$0.040 to CA$0.09 per common share expiring at various dates through April 30, 2013. The principal on the Company's $1,600,000 convertible secured debt is convertible into 28,108,304 common shares of the Company.

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 are amortized into operations using the units of production method based upon proven and probable mineral reserves and mineral resources. Management regularly reviews the carrying value of each mineral property using estimated undiscounted cash flows from each project. When review suggests impairment, the carrying value of the project would be reduced to the extent it exceeded the fair value.

This discussion addresses matters which the Company believes are important for an understanding of its financial condition and results of operations as of and for the two years ended September 30, 2008 and for its future prospects. It consists of the following subsections:

- The Company's vision, core business and strategy
- Key performance drivers
- Capability to deliver results
- Results
- Outlook
- Risks factors

**The Company's vision, core business and strategy**

The Company is a Canadian corporation, listed on the Toronto Stock Exchange (TSX) with mining and exploration activities primarily in Chile. On July 1, 2004, the Company commenced commercial production at its Pimenton gold mine. Operations ceased in June

2005 owing to unusual weather conditions. In December 2007, the Company was successful in raising $3,974,997 with which to fund start-up operations at its Pimenton gold mine. Most of the Company's efforts have been focused on restarting Pimenton and effective October 1, 2008, commercial production of the mine was declared at the rate of 91 tons per day during the 21 days of plant operation during October 2008. The Company will continue to focus its principal efforts on Pimenton to bring the mine up to a production rate of 200 tons per day in the next 12 months. The Company is also engaged in the exploration for and acquisition of gold and other mineral properties. The Company's principal exploration activities had been focused on a potential porphyry copper deposit located within the Pimenton area on which the Company holds mining claims. Pursuant to a letter of understanding ("**LOU**") signed in March 2007, Empresa Minera de Mantos Blancos S.A. subsequently renamed Anglo American Norte S.A. ("Anglo"), a wholly owned subsidiary of Anglo American, p.l.c. ("Anglo American"), Anglo was to drill 2,000 meters of diamond drill holes, which was completed in May 2007. Discussions between the Company and Anglo regarding a potential joint venture agreement were in process when Anglo withdrew from such discussions on October 30, 2008 due to uncertainty in world commodity prices. In addition, the Company holds mining claims on Tordillo, a gold and copper prospect and has acquired Bandurrias, a copper prospect, and La Bella, a gold/copper prospect. The Company also holds interests in two limestone deposits. The Company will continue exploration on the Pimenton porphyry copper deposits in the 2008-2009 exploration season and expects to conduct further drilling on the project during the 2009-2010 exploration season. As a result of management's decision to focus on Pimenton, the Company wrote down its Catedral/Rino project in the amount of $3,492,000 and its Cal Norte project in the amount of $1,534,000 in accordance with Section 3063 – impairment of long-lived assets. Irrespective of Section 3063 the directors and management of the Company believe these properties will have longer term value to the Company and its shareholders. Additionally, exploration and mining properties were written off totaling $1,030,000. The Company has considered that exploration results are not promising, and there fore written off its exploration costs, until it deems the project to have a definitive resource potential as defined by National Instrument 43-101. The total amount of these write downs as of September 30, 2008 was $6,056,000.

Using its core mineral assets, the Company believes it is now positioned to grow into a profitable mining company as it re-starts production at its Pimenton gold mine and develops its gold and copper prospects.

Pimenton gold mine

Pimenton encompasses 3,121 hectares (7,708 acres).

The Pimenton gold mine started operations on July 2004 and was shut down on June 9, 2005, when a major snow storm moved through the region causing extreme avalanche danger at the mine site and the road leading to it. Actions taken by management protected the camp and plant buildings at the mine during the storm period. However, electrical and air compressor equipment at the mine's main portal entrance was damaged causing a

shut-down of operations. The plant roof was subsequently damaged by snow load conditions after the mine had been evacuated. In January 2008 work was started to prepare the mine for operations.

The Company's insurance policy contained physical damage as well as business interruption coverage and the Company notified its insurance carrier of the physical damage and the shutdown of mining operations. The Company was unable to negotiate a settlement with the insurance company and it notified the insurance carrier that it had elected its right to enter into arbitration. The Company's initial business interruption claim was for approximately $3,000,000. Following a protracted arbitration period, the arbitrator agreed with the Company's position but awarded the Company only $826,767, substantially less than its initial claim.

The Company raised an aggregate of $3,974,997 in a private placement, which closed on December 17, 2007. In addition, two directors and officers of the Company financed lease purchase agreements to purchase mining equipment for the Pimenton mine totaling $530,162. On September 9, 2008, a further CA$1,913,791 was raised through a non-brokered private placement in which three directors, two of whom are also officers of the Company, participated in the aggregate amount of CA$1,100,000. The net proceeds from such private placements and the equipment lease financing enabled the Company to put its Pimenton mine into production in July 2008 with commercial production being declared effective October 1, 2008, at a rate of production of 91 tons per day during the 21 days the plant was in operation during October 2008. This represents a rate of operations which was reduced from the Company's original plan due to its inability to raise an intended $14,000,000 in 2006. The Company has plans to gradually increase production to 100 tons per day in the next twelve months with a further increase to 200 tons per day by mid-year 2010. At the present rate of production, proven and probable reserves are sufficient for two years. The Company is currently working to convert 250,000 tons of drill indicated resources into the proven and probable reserves and continue exploration for new gold veins at Pimenton.
Pimenton - porphyry copper

In March 2005, the Company entered into an LOU with Rio Tinto Mining and Exploration Ltd. ("Rio Tinto") whereby Rio Tinto agreed to fund and complete a 2,600 to 3,000 meter diamond drill program on the potential porphyry copper deposit located within the Pimenton area. Following completion of the drill program, Rio Tinto had the right to exercise an option to enter into a formal joint venture option agreement. In June 2006, the Company received notification that Rio Tinto had terminated the joint venture agreement with the Company. Rio Tinto provided an exploration report which concluded, among other things:

- Eight drill holes were drilled totaling 3,891 meters of diamond drilling.
- A mineralized copper-gold porphyry system was discovered.
- Although the copper and gold grades can be considered subeconomic at this stage, there is the potential for a high grade core at depth.

- It recommended drilling a few holes in the main valley to evaluate the vertical extension of mineralization.
- Potential resources of several hundred million tons are thought to be a realistic scenario.
- Results of the exploration program done by Rio Tinto have added significant value to the Pimenton project and consequently to the shareholders.

In March 2007, the Company entered into a new LOU with Empresa Minera de Mantos Blancos S.A., which was subsequently renamed Anglo American Norte S.A. (Anglo) a wholly owned subsidiary of Anglo American PLC whereby Anglo agreed to fund and complete a 2,000 meter diamond drill program on the potential porphyry copper deposit located within the Pimenton area. Late in the 2007 Chilean exploration season Anglo drilled one hole to approximately 1,000 meters in length. This hole was drilled off structure and encountered very weak mineralization. In January 2008, Anglo commenced drilling a second hole to 1,000 meters. This hole was successful in achieving grades equivalent to the grades obtained by Rio Tinto in drill holes Nº 4 and 6. The Company proceeded to enter negotiations with Anglo for entering into a joint venture agreement. During the course of these discussions, on October 30, 2008, Anglo American informed the Company that it had decided to terminate further discussions regarding such joint venture agreement due to the uncertainty in world commodity prices. The Company will continue exploration on the Pimenton porphyry copper deposits in the 2008-2009 exploration season and expects to conduct further drilling on the project during the 2009-2010 exploration season.

Tordillo

Tordillo is located 11.5 kilometers south-southwest of Pimenton and covers an area of 6,632 hectares (16,381 acres). It is in the early exploration stage and to date the Company has identified several gold vein structures similar to those at Pimenton and an area of potential porphyry copper mineralization. The preliminary data suggests Tordillo contains the upper part of a deep-seated copper/gold and possibly copper molybdenum porphyry system associated with narrow high grade and copper veins which may be widespread and represent a separate exploration target. Tordillo is located in an area of intense exploration activity.

Bandurrias

Bandurrias was acquired in August 2007 by the Company by way of an option agreement for the property. Under the terms of this option agreement, US$30,000 was paid on signing, US$70,000 was 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 $6,500,000 price or US$5,400,000 will be paid in the form of a 5% net smelter royalty. In April 2008, the Company did not renew its option agreement on Bandurrias which was comprised of claims covering approximately 1,982 hectares (4,897 acres) in the Fifth Region of Chile and wrote off $214,000 relating to this option agreement, but has

acquired approximately 13,400 hectares (33,098 acres) surrounding the Bandurrias Prospect area in which the Company owns a 100% interest.

La Bella

The Company has signed an option agreement (the "La Bella Option Agreement") to earn a 100% interest on claims covering approximately 4,000 hectares (9,840 acres) (the inner circle) and has put down additional claims covering an outer circle which encompasses an additional area of approximately 24,900 hectares (61,503 acres) of claims located 75 kilometers southwest of Santiago, Chile.

A small field crew is prospecting the 28,900 hectares (71,383 acres) of total claims held by the Company for gold veins. In addition, geochemical soil sampling is being carried out on the vein outcrops. Subsequent drilling will be based on geochemical results after the Company's Pimenton mine is in production at commercial production rates for at least six months.

Under the terms of the La Bella Option Agreement (inner circle) the Company has paid $30,000 and $70,000 is due in December 2008, $200,000 in December 2009, $800,000 in December 2010, $900,000 in December 2011 and $1,000,000 in December 2012. The Company will pay a 2½% net smelter royalty to the optionee from production thereafter.

On the outer circle the Company has an obligation to pay $100,000 in December 2008, $100,000 in December 2009, $500,000 in December 2010, $700,000 in December 2011, $1,000,000 in December 2012 and $2,600,000 in December 2013. The Company will pay a 2½ % net smelter royalty to the optionee of the inner circle from production thereafter.

In addition, on the inner and outer circle the Company has a combined minimum exploration obligation of $50,000 in year one, $250,000 in year two and $700,000 in year three.

Limestone deposits

Lime is used by the Chilean mining industry in processing sulfide copper ores and in heap leaching of gold ores.

The Chilean lime market was adversely affected by the devaluation of the Argentinean peso in 2003 resulting in a flow of cheap lime from Argentina into the Chilean lime market for the last four years. This situation and financial constraints on the Company have limited the ability of the Company capitalize on its lime position. With the recovery of the Argentinean economy in the past three years the domestic demand for lime is improving thereby allowing for increased pricing by the Argentinean lime producers. Trucking costs of Argentinean lime imported into Chile have also increased the costs of Argentinean lime to the Chilean mining industry which is a large consumer of lime.

While the changing economic situation, as noted above, will enable the Company to continue its efforts to become a supplier of lime to the Chilean copper industry, it also strengthens the Company's position as it reviews alternative strategies for the sale, joint venture or spin-off of the Catedral, Rino and Cal Norte limestone properties. In accordance with section 3063 – impairment of long-lived assets the Company wrote off an aggregate of $5,026,000 of exploration and development costs relating to Catedral/Rino ($3,492,000) and Cal Norte ($1,534,000).

**Key performance drivers**

Pimenton gold mine

Operations at Pimenton had been suspended from June 19, 2005 until July 2008, due to the major snow storm damage. During December 2007, the Company was successful in raising $3,974,997 to initiate the restart of operations at its Pimenton gold mine. The Company has scaled back its original plans for the Pimenton gold mine announced in 2006 in connection with the Company's initial plan raise up to $14,000,000. The Pimenton gold mine has been prepared for a 50 ton per day rate of production to be gradually increased to 200 tons per day. The current proven and probable reserves will support this operation for nearly two years and the cash flow to develop additional proven and probable mineral reserves. The Company declared commercial production at Pimenton effective October 1, 2008, at 91 tons per day.

Pimenton - porphyry copper

Rio Tinto notified the Company that it had terminated the joint venture with the Company. The 3,891 meter diamond drill program conducted by Rio Tinto identified a copper gold porphyry system and added significant value to the Pimenton porphyry copper project.

In March 2007 the Company entered into a new LOU with Anglo a wholly owned subsidiary of Anglo American PLC (Anglo American) whereby Anglo agreed to fund and complete a 2,000 meter diamond drill program on the potential porphyry copper deposit located within the Pimenton area. Anglo drilled one hole to approximately 1,000 meters in length. This hole was drilled off structure and encountered very weak mineralization. Anglo completed a second hole to 1,000 meters which was equivalent in grade to Rio Tinto's drill holes No. 4 and 6, but drilled to 1,000 meters compared to the 600 meters in Rio Tinto's drill hole No. 4.

Anglo informed the Company that it wished to exercise its right under the LOU to enter into joint venture discussions. These discussions were abruptly terminated by Anglo on October 30, 2008. The Company will continue exploration on the Pimenton porphyry copper deposits in the 2008-2009 exploration season and expects to do further drilling on the project during the 2009-2010 exploration season.

**Capability to deliver results**

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

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees.

The Company is subject to exchange variations against its functional currency, the United States dollar, as it purchases certain goods and services in Chilean pesos and Canadian dollars. The Chilean peso fluctuates in line with a basket of currencies currently consisting of the US dollar, the Euro and the Japanese yen. The Central Bank of Chile from time to time re-weights the percentage of emphasis placed on a given currency in the basket and may from time to time replace one world currency in the basket with another world currency. The Company's revenues, if any, in the future, will be primarily derived from the mining and sale of gold, copper, limestone and lime and the disposition of interests in mineral properties or interests related thereto. The price of these commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumptive patterns.

Pimenton gold mine

On July 1, 2004, the Company commenced commercial production and incurred some normal and some unexpected start up operating problems. From July 1, 2004 to June 19, 2005 the mine experienced operating losses.

On June 9, 2005, a major storm system moved through the Central Andes causing extensive avalanche activity throughout the region. During a period of 10 days, the storm dropped almost four meters of snow, causing extreme avalanche danger at the mine and along the road leading to it.

On December 29, 2003, Compania Minera Pimenton ("CMP") entered into a loan agreement with the Overseas Private Investment Corporation ("OPIC") for $2,800,000 project financing.

The loan agreement contained financial and operational covenants, including, among other things, a minimum working capital ratio, as defined, limitations on trade debt and short term credit facilities, achievement of minimum exploration drilling, minimum reserve development and minimum production levels.

Due to events at the mine, CMP advised OPIC that it believed it would not be in compliance with financial and operating covenants of its loan agreement for the calendar quarters through and until October 1, 2006. On September 30, 2006 and September 30, 2007 the Company notified OPIC that it was not in compliance with the financial and operating covenants of the loan agreement and OPIC granted CMP an additional waiver until June 30, 2009.

The Company raised sufficient funds to restart operations at Pimenton in December 2007 on a reduced basis of 50 tons per day to be gradually increased to 200 tons per day. The Pimenton mine was declared to be in commercial production affective October 1, 2008, producing at the rate of 91 tons per day during the 21 days it was in operation during October 2008.

Potential porphyry copper

The Rio Tinto 3,891 meter diamond drill program identified a mineralized copper gold porphyry system with potential resources of several hundred million tonnes.

In January 2008, Anglo commenced drilling on a second hole to 1,000 meters and carry out additional mapping at Pimenton before making a decision to enter into a joint venture agreement on the project. This hole was successful and Anglo entered into joint venture discussions with the Company. On October 30, 2008, the Company was informed by Anglo that it was terminating discussions on the joint venture agreement due to uncertainties in world commodity prices.

The Company has incurred sufficient explorations expenditures to maintain the Pimenton porphyry in good standing. As of September 30, 2008, it wrote off the carrying value of $411,000 relating to past exploration costs on an area not of interest to Rio Tinto or Anglo in line with its policy of writing off explorations expenditures until a resource potential in accordance with NI 43-101 has been established.

Tordillo

The presence of strong extensive explosive breccias is reminiscent of the porphyry copper systems at large existing copper mines in Chile. Subsequent exploration should bring into perspective the vein potential and establish if the porphyry system is large enough to host possible economic copper mineralization. The Company is deferring exploration activities while it is bringing Pimenton on line.

Bandurrias

The Company expects to conduct a diamond drill program to determine ore continuity from an adjacent copper producing property during the 2009-2010 exploration season

based of copper prices at that time. The Company is deferring exploration activities during the 2008-2009 exploration season while it is bringing Pimenton on line.

La Bella

The Company has signed the La Bella Option Agreement to earn a 100% interest on claims covering approximately 4,000 hectares (9,840 acres) (the inner circle) and has put down additional claims covering an outer circle which encompasses an additional area of approximately 24,900 hectares (61,503 acres) of claims located 75 kilometers southwest of Santiago, Chile.

A small field crew is prospecting the 28,900 hectares (71,383 acres) of claims held by the Company for gold veins. In addition, geochemical soil sampling is being carried out on the vein outcrops. Subsequent drilling will be based on geochemical results and an airborne magnetic survey after the Company’s Pimenton mine has been put back into operation which, as previously announced, was in July 2008.

Under the terms of the La Bella Option Agreement (inner circle) the Company has paid $30,000 and $70,000 is due in December 2008, $200,000 in December 2009, $800,000 in December 2010, $900,000 in December 2011 and $1,000,000 in December 2012. The Company will pay a 2½% net smelter royalty to the optionee from production thereafter.

On the outer circle the Company has an obligation to pay $100,000 in December 2008, $100,000 in December 2009, $500,000 in December 2010, $700,000 in December 2011, $1,000,000 in December 2012 and $2,600,000 in December 2013. The Company will pay a 2½ % net smelter royalty to the optionee of the inner circle from production thereafter.

In addition, on the inner and outer circle the Company has a combined minimum exploration obligation of $50,000 in year one, $250,000 in year two and $700,000 in year three.

The Company has taken the decision to expense its explorations costs until it deems the project to have resource potential as defined by NI 43-101. Therefore the Company wrote off the balance of $31,000 in exploration costs for the year ended September 30, 2008.

Limestone deposits

The Chilean lime market was adversely affected by the devaluation of the Argentinean peso in 2003 resulting in a flow of cheap lime from Argentina into the Chilean lime market for the last four years. With the recovery of the Argentinean economy in the past two years the domestic demand for lime is improving thereby allowing for increased pricing by the Argentinean lime producers. Trucking costs of Argentinean lime imported into Chile have also increased the costs of Argentinean lime to the Chilean mining industry which is a large consumer of lime.

The Company's limestone deposits at Catedral and Cal Norte contain high grade limestone which, when calcined, can produce lime that the Company's management believes will qualify for use by the Chilean mining industry. The Company believes that the Cal Norte lime project will shortly be able to compete against Argentinean lime imports. While the changing economic situation, as noted above, will enable the Company to continue its efforts to become a supplier to the Chilean copper industry, it also strengthens the Company's position as it reviews alternative strategies for the sale, joint venture or spin-off of the Catedral, Rino and Cal Norte limestone properties. Financial constraints have limited the Company's ability to develop its lime prospects.

As at September 30, 2008, the Company had contributed $3,492,000 (2007 - $3,439,000) to finance a drilling program on Catedral /Rino and completed a preliminary feasibility study for construction of a 1,320,000 ton per day capacity cement manufactory facility on the project as well as a preliminary feasibility study for constructions of a 600 ton per day lime kiln on the Catedral property. The Company wrote off the balance of $3,492,000 in mining properties and exploration costs relating to Catedral as the properties had been on care and maintenance for more than three years in accordance with section 3063 – impairment of long – lived assets, as it focuses its efforts on its Pimenton gold mine.

As at September 30, 2008, the Company had contributed $1,534,000 (2007 - $1,463,000) to finance a bankable feasibility study on the project and for environmental permitting and further mine development on the project. Although the Company has incurred sufficient explorations expenditures to maintain the Catedral property in good standing until September 30, 2008, it wrote off the carrying value of $1,534,000 during the current year in accordance with sections 3063 – impairment of long-lived assets.

**Selected Consolidated Financial Information**

The following table presents a summary of the Company's financial information for the past three years. The Company's fiscal year ends on September 30.
(in thousands, except per share amounts)

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| | $ | $ | $ |
| Precious metal revenue | - | - | 4 |
| Net loss | 8,570 | 3,750 | 3,438 |
| Basic and diluted loss per share | 0.01 | 0.01 | 0.01 |
| Total assets | 20,731 | 20,990 | 20,644 |
| Long term financial liabilities (note 1) | 14,940 | 6,320 | 3,110 |
| Cash dividends | Nil | Nil | Nil |

Note (1) : Includes option payments of La Bella totaling $8,750,000.

## Results

## 2008

Critical accounting policies and estimates

### Asset Impairment

The carrying values of producing mineral properties, including properties placed on a care and maintenance basis and related deferred expenditures, are reviewed when events or changes in circumstances arise that may result in impairments in the carrying value of those assets. Estimated future net cash flows, on an undiscounted basis, are calculated for each property using: estimated recoverable reserves; estimated future metal price realization (considering historical and current prices, price trends and related factors); and estimated operating, capital and other cash flow. Estimates of future cash flows are subject to risks and uncertainties. It is possible that changes could occur which may affect the recoverability of the carrying value of mineral properties.

The Company wrote down its Catedral/Rino project in the amount of $3,492,000 and its Cal Norte project in the amount of $1,534,000 in accordance with Section 3063 – impairment of long-lived assets. Irrespective of Section 3063 the directors and management of the Company believe these properties will have longer term value to the Company and its shareholders. Additionally, exploration and mining properties were written off totaling $1,030,000. The Company has considered that exploration results are not promising, and there fore written off its exploration costs, until it deems the project to have a definitive resource potential as defined by National Instrument 43-101. The total amount of these write downs as of September 30, 2008 was $6,056,000.

### Reserves

Mineral reserves will be calculated in accordance with National Instrument 43-101 ("NI 43-101"), a rule adopted by Canadian securities administrators as the standard of disclosure for mineral projects. This estimate is used to determine mine viability, mine life and amortization rates. The estimation of Reserves is based on drill hole information, historical mining results, historical metallurgical results, estimated future operating costs and estimated future metal prices. A "Qualified Person", as defined by NI 43-101, performs the Reserves estimate.

### Amortization

The Company uses the units-of-production method for amortization of mineral properties and some of its fixed assets based on the Reserves. Any significant changes in the Reserves could impact the amount of annual amortization.

## Inventory

The Company values its concentrate inventories at the lower of cost or realizable value at the end of the reporting period. Realizable value includes metal prices, net of treatment charges and freight. Metal prices can be subject to significant change from period to period. At September 30, 2008, all concentrate inventories were recorded at realizable value.

## Future Tax Assets and Liabilities

Future tax assets and liabilities are calculated using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using current tax rates. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period the change is known. To the extent that the Company considers it to be more likely than not that a future tax asset will be recovered, a tax asset will be set up, otherwise the Company provides a valuation allowance against the excess. It is possible that changes could occur in the future that may affect the recoverability of the carrying value of future tax assets and a write-down may be required.

## Reclamation

The Company provides for the fair value of liabilities and capitalized costs for asset retirement obligations in the period in which they are incurred. Over time, the liability is accreted to its present value and the capitalized cost is amortized over the useful life of the related asset. Asset retirement obligations are obligations of the Company that arise as a result of an existing law, regulation or contract related to asset retirements. Estimates of the liability associated with the retirement of an asset are based on current laws and regulations and the expected resulting costs, all of which are subject to change. If actual costs of reclamation exceed the recorded amount the Company will record a loss. Alternatively, if reclamation costs incurred are less than those recorded, the Company will record a gain.

## Consolidations of Financial Statements

The Company's consolidated financial statements are presented in U.S. dollars and have been prepared in accordance with Canadian GAAP which are described in note 2 to such statements. 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. Management reviews its estimates and assumptions on an ongoing basis using the most current information available; however, actual amounts could materially differ from those based on estimates and assumptions. Management's critical accounting estimates, which apply to the assessment for the

impairment of exploration and mining properties were written-off during the year ended on September 30, 2008 totaling $6,056,000.

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

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

Management has identified the following critical accounting estimates that could have a material impact on the Company's financial statements:

Mineral reserves will be calculated by the end of calendar 2008 in accordance with National Instrument 43-101, as required by Canadian securities regulatory authorities. It should be noted that mineral reserve estimates are imprecise and depend partly on statistical inferences drawn from geological data, which may prove to be unreliable. Future production could differ significantly from estimated mineral reserves because of differences between actual and estimated mineralization.

The fair value of share options used to calculate compensation expense has been estimated using the Black-Scholes valuation model.

**Financial Instruments**

Effective October 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants' new Handbook Section 1530, "Comprehensive Income", Section 3855, "Financial Instruments", and Section 3861, "Financial Instruments" – Disclosure and Presentation". These standards were adopted on a prospective basis but calculated retrospectively; accordingly, the comparative financial statements for the prior year have not been restated.

## Comprehensive income

Section 1530 introduces new requirements for situations when certain gains and losses ("other comprehensive income" or "OCI") must be temporarily presented outside of net, loss. Comprehensive income includes both net loss and OCI. OCI is the change in shareholders' equity from non-owner sources which are not included in the calculation of net loss until realized. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income ("AOCI"), which is presented as a new category of shareholders' equity on the balance sheet. The Company had no OCI transactions during the year ended September 30, 2008, and no opening nor closing balances for AOCI.

## Financial instruments recognition, measurement, disclosure and presentation

Under section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognised or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net loss.

Upon adoption of these new standards, the Company has designated its cash as held-for-trading, which is measured at fair value. Receivables are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are designated as other liabilities, which are measured at amortized cost. At September 30, 2008, the Company had neither available-for-sale nor held-to-maturity financial instruments.

The Company evaluated the impact of Section 3855 on its 2007 financial statements and recorded a transition adjustment to opening deficit in the 2007 year in the amount of $22,000 to reflect the impact of adopting the effective interest rate method.

Section 3861 identifies and details information to be disclosed in the financial statements.

## Hedging

This standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not hold any financial instruments designated for hedge accounting.

**Accounting Changes**

Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable or is specified otherwise by a new accounting standard), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this new standard cannot be determined until such time as the Company makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook standards.

**Future Accounting Changes**

Inventory

In June 2007, a replacement section for inventories, Section 3031 "Inventories" was issued and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and eliminates the use of the "last-in, first-out" method of accounting and is effective for the fiscal years beginning on or after January 1, 2008.

Goodwill and intangible assets

The Canadian Institute of Chartered Accountants issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts

reported by the Company for the year ended September, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

In addition, see note 2 of the financial statements “Summary of significant accounting policies”.

**Results of operations - 2008**

The Company had no revenues in 2008 or in 2007. The Company incurred losses of $8,570,000 in 2008 of which $5,026,000 was incurred due to a write down of costs associated with its mining and exploration costs for accounting purposes, in accordance with section 3063 – impairment of long-lived assets. An additional $1,030,000 of write downs were incurred on exploration projects deemed not promising until the projects have resource potential as defined by NI 43-101.

The Company expects to have revenues from its Pimenton gold mine in its fiscal year ended 2009. The mine was declared to be in commercial production at 91 tons per day effective October 1, 2008. Plans are to gradually increase production to 200 tons per day over the next twelve months. Revenues for gold, silver and copper sales from the mine are expected to cover operating costs of the mine plus generate sufficient funds to cover capital expenditure required to sustain operations beyond March 2009 which include construction of the first stage of an expanded tailings pond estimated to cost $500,000; In addition the Company plans to purchase two snow cats estimated to cost $500,000 This is an optional purchase. The Company would also like to install a system to convert the Knelson Concentrate the mine is currently producing into gold dore bars estimated to cost $400,000. This is an optional purchase but would facilitate operations in the future. These capital expenditures total $1,400,000. The ability of the Pimenton mine operations to cover its operating costs and generate sufficient funds to cover capital expenditure budget is dependant on the prices of gold, silver and copper; dependant on the gold veins in the mine retaining their width, continuity and grade of ore; dependant on snow conditions in the Chilean winter which runs from May 2008 to December 2008; dependant on the future price of diesel fuel; dependant on the price of the Chilean peso relative to the US Dollar and dependant of the ability of the Company to retain its current work force. In addition the Company must successfully renegotiate the terms of its loan with OPIC in the amount of $1,556,000 on which the Company has a waiver of Principal payment from OPIC until June 30, 2009 at which time the loan payments are to be renegotiated.
The Company sells its gold, silver and copper concentrate directly to the Enami smelter which is owed by the State of Chile through its ownership of CODELCO. Enami pays for 85% of the value of shipment the week following delivery and the balance of the payment is made one to two months following the date of receipt of the concentrates. As the Company increases the production to 200 tons per day this one to two months delay in receipt of the balance of the 15% payment will cause a short term cash flow shortfall for the Company. In addition during winter months of operation the 80 kilometer road into the mine site can be closed for extended periods to time thereby not allowing shipment of copper concentrate to Enami. The Company’s Knelson Concentrate, however, which contains 85% of the gold value produced by the mine can be either

helicoptered, or if the Company is in a position to purchase the snow cats described above, the Company will be in a position to deliver the Knelson gold concentrate to a point accessible by truck and delivery to Enami can proceed from that point.

The ability of the Company to produce its own gold doré at the mine site would further increase its flexibility both in delivery to Enami during winter months or by allowing the Company to ship the gold dore bars directly to a gold smelter in Europe or Canada which would eliminate the one to two months delay in receipt of payment from Enami.

Amortization expense decreased by $666,000 to $15,000 in 2008 from $681,000 in 2007. This reduction was due to the capitalization of amortization expenses against property development costs in 2008 of $636,000 when it became clear that the Pimenton mine would be put back into operation. The remaining reduction of $30,000 was due to certain mining equipment becoming fully amortized.

Temporary mine shut down costs were $50,000 in the twelve months ended September 30, 2008 compared to $119,000 for the same period in 2007. The reduction of $69,000 was due to the mine start up activities which were recommenced during the twelve month ended September 30, 2008.

General and Administrative costs in the twelve months ended September 30, 2008 were $1,550,000 compared to $1,753,000 for the same period in 2007. The $203,000 decrease was due to a reduction in: (i) professional fees of $645,759 which included fees paid to Northern Securities of $316,726, retainer fees paid to a former director of the Company of $29,620, fees paid to a former officer of the Company of $40,821, financial advisory fees of $118,059 paid to one former director who was also and officer of the Company and one former officer of the Company; (ii) rent by $9,587; (iii) overhead by $44,953; (iv) shareholders expenses by $52,350; and (v) accounting and other expenses decreased by $33,643. An increase in salaries of $333,317, insurance of $16,782, taxes and penalties of $19,019, royalties of $19,687, and miscellaneous and other expenses of $53,641 was due to restart of operations of the Pimenton mine.

Stock based compensation was $398,000 during the twelve month period ended September 30, 2008 compared to $215,000 for the same period in 2007. On April 30, 2008, 2,339,538 common stock options were granted to a new director of the Company at an exercise price of CA$0.05 per share, exercisable for a period of four years from the date of issuance. The options were valued at a fair value of $27,792, using the Black-Scholes valuation model, assuming a risk-free rate of 3.04%. On April 29, 2008 an officer and director received 1,000,000 bonus shares valued at $44,474 using the TXS closing price of CA$0.045. Also, the Company issued on March 13, 2008 25,000,000 common stock options exercisable at CA$0.045 per share for a period of four years from the date of issuance, which were issued to: (i) the President of the Company (10,000,000 options); and (ii) three new directors and two serving directors who are not officers of the Company (15,000,000 options). These options were fair valued at $312,672, using the Black –Scholes valuation model, assuming a risks-free rate of 3.6%, no dividend, and volatility factor of 80% and expensed as stock-based compensation. In addition, seven

employees who are not officers of the Company were awarded a total of 1,950,000 common stock options having a five year life with immediate vesting at a price of CA$0.045 per share. These options were fair valued at $57,595 using the Black-Scholes valuation model, assuming a risks-free rate of 3.6%, no dividend, and volatility factor of 80% and expensed as stock-based compensation. The Company recognized the total stock based compensation of $442,533 (2007 - $177,000) of which $44,314 (2007 – nil) charged to mine development and $398,259 charged to stock based compensation.

Warrant revaluation expense was $90,000 in the twelve month period ended September 30, 2008 compared to $733,000 for the same period in 2007. Warrant revaluation expenses represent the fair value of the extended warrants in excess of the fair value of the warrants being extended at the extension dates and is charged to expense. In the twelve months ended September 30, 2008, 16,635,628 warrants expiring on January 31, 2008, were extended to March 31, 2008 and then expired. 20,000,000 warrants expiring on October 21, 2006, were extended two times; first to October 22, 2007 and then to April 22, 2008 when they expired. These warrant revaluations resulted in an expense of $83,845. The fair value of the warrants were assigned using the Black-Scholes valuation model assuming risk free interest rates of 1.75% to 4.21%, no dividend and a volatility factor of 80%. Warrant revaluation expenses increased by a further $6,000 to a total of $90,000. The $6,316 was related to the issuance of new broker units being issued on the exercise of the original 1,435,000 warrants.

The foreign exchange gain was $256,000 for the twelve months ended September 30, 2008 compared to $2,000 loss for the same period in 2007. Participants in the December 17, 2007 private placement locked in a US dollar to Canadian dollar exchange rate with the Company prior to the actual private placement. When the shares were issued it resulted in a foreign exchange gain of $233,000. Other exchange gains amounted to $23,000.

During 2008, other income was $15,000 due to the sale of $9,000 in fixed assets and $6,000 due to rent equipment. During 2007, the Company issued common shares in settlement of various liabilities, including employee termination, interest, notes and other payables. The total of such liabilities exceeded the fair value of common shares issued in settlement thereof by $155,000 which was credited to other income. The shares were valued using the TSX closing price on the date preceding the issuance date of such shares. Other income also includes $420,000 primarily from insurance recoveries.

Exploration and mining properties were written-off during the year ended on September 30, 2008 totaling $6,056,000 with $5,026,000 of this total broken down as follows: Catedral $3,492,000, Cal Norte $1,534,000, in accordance with section 3063 – impairment of long-lived assets, and Bandurrias $214,000; Chachas Peru $172,000; Breccia $411,000 and various others for $70,000. The write down of $411,000 on the Breccia at Pimenton represents work performed by the Company outside the area of interest of the drilling performed by Rio Tinto and Anglo. The Company has taken the decision to expense its exploration costs until it deems the project to have definitive

resource potential as defined by National Instrument 43-101. The balance of $163,000 represents a write-off of recoverable taxes that had been capitalized against these properties. No exploration properties were written-off in 2007.

**Liquidity and capital resources**

The acquisition, exploration, financing, and development of natural resources require the expenditure of significant funds before production commences. Historically, the Company has financed these activities through the issuance of common shares, the exercise of options and common share purchase warrants, the issuance of promissory notes and debentures, bank debt and extended terms from creditors.

The Company raised an aggregate of $3,974,997 in a private placement which closed on December 17, 2007. In addition, two directors and officers of the Company financed lease purchase agreements to purchase mining equipment for the Pimenton mine totaling $530,162. On September 9, 2008, a further CA$1,913,791 was raised through a non-brokered private placement in which three directors, two of whom are also officers of the Company, participated in the aggregate amount of CA$1,100,000. These funds and the equipment lease financing have enabled the Company to put its Pimenton mine into production in July 2008 with commercial production being declared effective October 1, 2008, at a rate of production of 91 tons per day. This represents a rate of operations which was reduced from the Company's original plan due to its inability to raise an intended $14,000,000 in 2006. The Company has plans to gradually increase production to 200 tons per day in the next twelve months with further increases to 300 ton per day by mid year 2010. At the present rate of production, proven and probable reserves are sufficient for two years. The Company is currently working to convert 250,000 tons of drill indicated resources into the proven and probable reserves and continue exploration for new gold veins at Pimenton.

The Company had raised sufficient funds to restart operations at Pimenton in May, 2008 but delays in the receipt of certain plant equipment delayed the restart of operations of the plant until mid-July 2008. In the meantime mining development operations continued.

The delay in starting plant operations has caused a working capital shortfall of approximately $1,600,000.

At September 30, 2008, cash was $153,000 and $22,000 in current and restricted cash, respectively.

To preserve its cash position the Company plans to concentrate its efforts on Pimenton and substantially defer expenditures on other projects.

This working capital deficit at September 30, 2008 is expected to be reduced by revenues and operating profit from the Company's Pimenton gold mine which began commercial operations at 91 tons per day effective October 1, 2008. The Company plans to gradually

increase production to 200 tons per day over the next twelve months. A large part of the working capital deficits at September 30, 2008 was the treatment of the Company's $1,556,000 loan from OPIC as currently due. The Company has received a waiver of principal payment of the loan until June 30, 2009. Prior to June 30, 2009 the Company and OPIC have agreed to renegotiate the repayment terms of this loan. The risks associated with achieving a positive working capital position are described under "Results of Operations – 2008".

On April 16, 2007, the shareholders authorized the Company to apply for a certificate of continuance under the Canada Business Corporations Act (the "CBCA") continuing the Company as if it had been incorporated under the CBCA. The continuance was applied for and completed. As a result of the continuance the Company`s authorized capital consists of an unlimited number of common shares with no par value.

The Company has not declared or paid any dividends and does not foresee the declaration or payment of dividends in the near future. Any decision to pay dividends on its shares will be made by the board of directors on the basis of the Company's earnings, financial requirements and other conditions existing at such future time.

On March 13, 2007 the Company enter into an LOU with Anglo. Anglo drilled 2,000 meters of diamond drill holes under the terms of the LOU. The Company and Anglo American were in the process of entering into a joint venture agreement on the Pimenton porphyry copper deposit when, on October 30, 2008, Anglo American informed the company that it was withdrawing from the LOU and negotiations on the joint venture agreement were terminated.

Contractual obligations

At September 30, 2008, the Company's contractual obligations are summarized as follows:

Payments due by September 30,

Contractual obligations, excluding interest payments (in thousands)

| | 2009 | 2010 | 2011 | 2012 | 2013 and thereafter | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| OPIC loan | 1,556 | - | - | - | - | 1,556 |
| Pimenton notes | - | 1,944 | - | - | - | 1,944 |
| Convertible secured debentures | - | - | - | - | 1,600 | 1,600 |
| Capital leases | 151 | 164 | 125 | - | - | 440 |
| La Bella option payments (1) | 550 | 2,000 | 1,600 | 2,000 | 2,600 | 8,750 |
| Tailings pond expansion | 500 | - | - | - | - | 500 |
| Catedral prospect | - | 150 | - | - | - | 150 |
| | 2,757 | 4,258 | 1,725 | 2.000 | 4.200 | 14,940 |

Note (1). The Company is only obligated to make the option payments on either the inner circle or the outer circle as long as it desires to keep the underlying claims. The Company may drop either or both the inner or outer circle at any time and no further option payments are due to be paid.

The Executive Vice President - Director, Claims and Land Management and the Executive Vice President-Director of Exploration, both directors of the Company hold the non-controlling interest in the Catedral prospect and the Company has agreed to lend such officers and directors up to an additional $2,250,000 for development costs.

La Bella

The Company has signed the La Bella Option Agreement to earn a 100% interest on claims covering approximately 4,000 hectares (9,840 acres) (the inner circle) and has put down additional claims covering an outer circle which encompasses an additional area of approximately 16,000 hectares of claims located 75 kilometers southwest of Santiago, Chile.

A small field crew is prospecting the 28,900 hectares (71,383 acres) of claims held by the Company for gold veins. In addition, geochemical soil sampling is being carried out on the vein outcrops. Subsequent drilling will be based on geochemical results and an airborne magnetic survey.

Under the terms of the La Bella Option Agreement (inner circle) the Company has paid $30,000 and $70,000 is due at the end of the first year (December 2008), $200,000 in December 2009, $800,000 in December 2010, $900,000 in December 2011 and $1,000,000 in December 2012. The Company will pay a 2½% net smelter royalty from production thereafter.

On the outer circle the Company has an obligation to pay $100,000 in December 2008, $100,000 in December 2009, $500,000 in December 2010, $700,000 in December 2011, $1,000,000 in December 2012, $ 2,600,000 in December 2013. The Company will pay a 2½% net smelter royalty from production thereafter.
In addition, on the inner and outer circle the Company has a combined minimum exploration obligation of $50,000 in year one, $250,000 in year two and $700,000 in year three.

The Company must make an additional capital contribution of $394,000 to Cal Norte to earn its 60% equity interest.

**Result of operations- 2007**

The Company incurred losses of $3,750,000 in 2007 and $3,438,000 in 2006.

There were no revenues in 2007. Revenues from gold of $2,000 and from silver and copper of $2,000 in 2006 represent residual production sold subsequent to the mine shutdown. In addition, during 2006 the Company had operating income of $24,000 as a result of the Rio Tinto drilling program on the porphyry copper project.

Amortization expense decreased by $223,000. During 2006 the Company recorded additional amortization to reflect roof damage at the Pimenton mine.

Temporary closure expenses decreased by $386,000 to $119,000 in 2007 from $505,000 in 2006. Insurance expense was down by $25,000 and 2006 included a one time employee termination charge of $361,000. Temporary closure consists of salaries, repair and maintenance, fuel and related costs.

General and administrative expenses increased by $584,000 due to initiation and termination costs of management and financial advisory agreements of $525,000 and Chief Executive Officer compensation of $59,000. Costs associated with the management and financial advisory agreement consists of rent ($10,000), salaries ($70,000), insurance ($10,000) and shares issued in connection with the financial advisory agreement ($435,000).

Stock based compensation of $215,000 represents the fair value of 1,000,000 common shares ($37,000) and 10,000,000 share options ($178,000) issued to the President who is also a director of the Company. The shares were valued issued using the TSX closing price on the day preceding the grant date and the options were valued using the Black-Scholes valuation model assuming a risk free interest rate of 3.58%, no dividend and a volatility factor of 50%.

Warrant revaluation expenses represent the fair value of the extended warrants in excess of the fair value of the warrants being extended at the extension dates and is charged to expense. In the first half of fiscal 2007 warrants expiring on October 21, 2006 were extended to October 22, 2007 and warrants expiring on December 10, 2006 were extended three times to January 19, 2007, to March 19, 2007 and November 1, 2007. These warrant revaluations resulted in an expense of $732,874 The fair value of the warrants were assigned using the Black-Scholes valuation model assuming risk free interest rates of 2.0% to 4.09%, no dividend and a volatility factor of 50%.

During 2007, the Company issued common shares in settlement of various liabilities, including employee termination, interest, notes and other payables. The total of such liabilities exceeded the fair value common shares issued in settlement thereof by $155,000 which was credited to other income. The shares were valued using the TSX closing price on day preceding the issuance date. Other income also includes $420,000 primarily from insurance recoveries.

No exploration properties were written-off in 2007.

**Quarterly results (unaudited)**

(in thousands, except per share amounts)

| | **2008** | | | |
|---|---|---|---|---|
| | September 30, $ | June 30, $ | March 31, $ | December 31, $ |
| Revenue | - | - | - | - |
| Net loss | 5,192 | 1,671 | 1,316 | 391 |
| Basic and diluted loss per share | 0.01 | 0.01 | - | - |

| | **2007** | | | |
|---|---|---|---|---|
| | September 30, $ | June 30, $ | March 31, $ | December 31, $ |
| Revenue | - | - | - | - |
| Net loss | 640 | 981 | 1,172 | 957 |
| Basic and diluted loss per share | - | 0.01 | - | - |

**Related party transactions**

A company owned by chief executive officer, who is also a director, billed the Company $78,286 in 2008 (2007 - $97,377) for the provision of office space and services by the Company.

Receivable from an officer and director of $152,978 (2007 $329,000) is the net amount of non-interest-bearing note receivable compensations and advances to the chief executive officer who is also a director of the Company. The note is 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.

The Chief Financial Officer of the Company retired on February 6, 2008 at which time he was owed $207,260. The Company entered into a retirement agreement with the former Chief Financial Officer under which he received 2,000,000 Bonus Shares and was paid $17,648 for the difference between the net sales price of the 2,000,000 Bonus Shares and $100,000. In addition he has been paid $5,000 per month beginning February, 2008 and will continue to be paid at the rate of $5,000 per month until Pimenton is placed into commercial production at which time he will receive $7,500 per month until the net balance of $67,260 as of September 30. The Chief Financial Officer billed $63,279 for accounting services rendered to the Company in 2008 (2007 - $108,694). Amounts due to related parties include payables to this officer of $264,000 for such services.

A company controlled by the Interim Chief Financial Officer billed the Company $20,731 for accounting services rendered in the period ended September 30, 2008 (2007 - $nil). Amounts due to related parties include payables to this officer of $9,051 for such services at September 30, 2008 (2007 - $nil).

During 2007, the Executive Vice-President Director, Claims and Land Management, who is also a director of the Company, purchased an interest in the Pimenton notes and royalty from a non-related party. The fair value of this note was $876,378 at September 30, 2008 (2007 - $755,076) and interest expense was $48,879 in 2008 (2007 - $48,746). Amounts due to related parties include $195,238 (2007 - $146,359) for interest and $101,646 for royalties as at September 30, 2008 (2007 - $91,802).

Amounts due to related parties include $193,926 and $145,362 as at September 30, 2008 and 2007, 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 $870,787 and $750,217 as at September 30, 2008 and 2007, respectively (note 11(b)). In addition, amounts due to related parties include $101,645 and $91,802 as at September 30, 2008 and September 30, 2007, respectively, for royalties due to this officer and director who is the owner of a net smelter royalty on the Pimenton gold mine and include a cash advance of $8,909 which was provided to the company in July 2008.

On June 20, 2007, the Company sold through a private placement 26,431,515 units at CA$0.05 per unit, with each 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 were issued on the same terms on January 15, 2008.

In April 2008, the Executive Vice-President and Director of Exploration and the Executive Vice-President of Land and Administration, both of whom are directors of the Company agreed to enter into an agreement to lease/purchase to the Company's wholly owned subsidiary, CMP, two new Komatsu front end loaders on terms not currently available to the Company. The purchase price of the two Komatsu front end loaders total $440,038 inclusive of VAT at 19%, for $220,019 each. The Company has made a 25% payment against the purchase price of the equipment and the balance was funded by these two officers and directors under the 37-month lease/purchase agreement.

In June 2008, the Executive Vice-President and Director of Exploration, who is also a director of the Company agreed to guarantee the payment of a 37-month lease purchase agreement entered into by the Company on February 23, 2008 with a local Chilean bank for the purchase of a 4x4 Land Rover and a 4x4 Mahindra truck for a total purchase price of $71,624 plus VAT at 19% for a total of $85,232. This

director and officer of the Company has also guaranteed the payment of a 37-month lease/purchase agreement with a local Chilean bank for the purchase of an ambulance for purchase price of $54,992 plus VAT at 19% or a total of $65,440.

In June 2008, the Executive Vice-President and Director of Exploration, who is also a director of the Company agreed to enter into an agreement to lease/purchase two new 4x4 Land Rover trucks to the Company's wholly owned subsidiary, CMP, on terms not currently available to the Company. The purchase price of the two Land Rovers totalled $83,998 inclusive of VAT at 19%, for $41,999 each. The Company has made a 20% payment against the purchase price of the equipment and the balance was funded by this officer and director under the 37-month lease/purchase agreement.

In April 2008, the Executive Vice President and Director of Land and Administration, who is also a director of the Company agreed to enter into a 37-month agreement to lease/purchase two Hino trucks, one for 32,000 kg and the other for 17,000 kg, to the Company's wholly owned subsidiary, CMP, on terms not currently available to the Company. The purchase price of the two Hino trucks total $203,693 inclusive of VAT tax at 19%, the first for $129,341 and the second for $74,352.

Two officers and directors of the Company hold the non-controlling interest in Catedral (note 8(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 totalling $500,000, which was paid during 1997.

The Executive Vice President and Director of Claims and Land Management and the Executive Vice President and Director of Exploration, both directors of the Company, hold convertible secured debentures of the Company in the aggregate principal amount of $1,600,000. Interest expense was $93,949 and $117,760 for the periods ended September 30, 2008 and September 30, 2007, respectively. Amounts due to related parties include payables to these officers of $35,952 and $59,001 as at September 30, 2008 and September 30, 2007, respectively, for interest on such debentures. On August 13, 2007, 2,672,645 shares were issued in payment of interest due on the convertible subordinated debentures. The shares were valued at $98,561, using the TSX closing price of the preceding day and resulted in a gain of $14,298. On May 23, 2008, 2,394,140 shares were issued in payment of interest on the 10% convertible subordinated debentures. The shares were valued at $116,999, using the TSX preceding day closing price.

On September 9, 2008, the Company sold through a non-brokered private placement 38,275,822 units. Three directors, two of whom are also officers of the Company purchased 22,000,000 units under such private placement. Each unit was priced at $0.05. Each unit consists of one common share and one-half common share purchase

warrant. Each whole warrant is exercisable for a period of two years from the date of closing at an exercise price of $0.07. Net proceeds of the placement were $1,872,421, of which $262,270 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 80%.

Amounts due to related parties also include cash advances to the Company of $8,909 as at June 30, 2008 from the Executive Vice President and Director of Land and Administration, who is also a director of the Company.

On July 11, 2008, the Executive Vice President and Director of Land and Administration, who is also a director of the Company bought from CMP, a Ford Ranger truck. The sale price of the truck was $13,575 inclusive of VAT tax at 19%, The transaction generated a $5,326 loss to the Company.

The Chief Executive Officer, the Executive Vice President and Director of Exploration and the Executive Vice President and Director of Administration who are also Directors of the Corporation hold a total of 3.2% net smelter royalty interest on Tordillo, a 3.2% net smelter royalty interest on Bandurrias and a up to 2.50% net smelter royalty interest on both the inner circle and out circle of claims on La Bella. These net smelter royalty interests were approved by the Board of Directors and Compensation Committee of the Company in 2001. These individuals have not received compensation and benefits comparable to mining industry standards since 2001.

Mineral Reserves and Mineral Resources Estimates

The Company has not complied a Mineral Reserve and Mineral Recourses estimate of the Pimenton mine since the mine was shut down in June 2005. The Company will engage an independent qualified person under Canadian Instrument 43-101 to complete a report prior to the end of 2008.

The Company is preparing the mine for a starting rate of 50 tons per day to be gradually increased to 100 tons per day. The following is a sensitivity analysis :

**PRODUCTION VARIABLES AND SENSITIVITIES FOR 100 to 200 TPD.**

**VARIABLES**

| | | |
|---|---|---|
| Head grade gold | 14.44 | g/t |
| Head grade copper | 1.26 | % |
| Tons per day year 1 | 100 | Tpd |
| Starting tones per day 100 to 200 by September, 2009 | 200 | Tpd |
| Price per Ounce Gold | **$750** | |
| Price per pound Copper | **$1.50** | |
| Exchange rate US$ | **650** | CH$ |
| Plant combined recovery | 90% | |

| | | |
|---|---|---|
| Price per Ounce Gold | **$750** | |
| Price per pound Copper | **$1.50** | |
| Exchange rate US$ | **650** | CH$ |
| Loan Interest rate | 8.50% | |
| Price per liter Diesel | 650 | CH$ |
| Price per liter Gasoline | 650 | CH$ |

**ALL IRR% ARE FOR ENTIRE INVESTMENT**
**100 TPD to 200tpd USING PRICES OF $750 gold and $1.50 Copper**

**Grade Sensitivity. Projects from a low of 10g/t to 16 g/t Au head grade through plant.**

| Au g/t | Cu% | Op.Cost/Oz | IRR% |
|---|---|---|---|
| 10 | 0.5 | $425 | 70% |
| 12 | 1.0 | $359 | 97% |
| 14 | 1.2 | $323 | 118% |
| 16 | 1.4 | $296 | 138% |

Cost/Oz is cash cost per ounce at the mine

**100 TPD**
**Recovery Sensibility. Projects from 5% to 10% less plant Recovery for gold.**

| % diff. Recovery | Op.Cost/Oz | IRR% |
|---|---|---|
| -10% | $343 | 106% |
| -5% | $329 | 114% |
| 2% | $311 | 126% |

Operating cost/Oz is cash cost per ounce at the mine

**Tonnage Sensitivity at 100 to 200 tpd.**

| Tons per day | Op.Cost/Oz | IRR% |
|---|---|---|
| 100 | $557 | 43% |
| 125 | $459 | 61% |
| 150 | $407 | 77% |
| 175 | $370 | 90% |
| 200 | $316 | 106% |

**200 TPD**
**Price of Gold Sensitivity**

| Price per Ounce | IRR% |
|---|---|
| $500 | 68% |
| $600 | 87% |
| $700 | 105% |
| $800 | 123% |
| $900 | 140% |
| $1,000 | 158% |

**Price per liter of Diesel fuel**

| | Cost per Ounce of Au produced | IRR% |
|---|---|---|
| CH$ 400 | $301 | 126% |
| CH$ 500 | $307 | 125% |
| CH$ 600 | $313 | 124% |
| CH$ 700 | $319 | 122% |
| CH$ 800 | $325 | 121% |
| CH$ 900 | $331 | 119% |

**Outlook**

Results of the Rio Tinto exploration program have added significant value to the Pimenton porphyry copper deposit. Anglo, a wholly owned subsidiary of Anglo American PLC, has completed drilling on a second hole to 1000 meters at Pimenton. The drill hole results were positive as announced by the Company on April 8, 2008. The Company proceeded to enter into joint venture discussions with Anglo but on October 30, 2008 Anglo abruptly terminated discussions due to the uncertainty in world commodity prices.

In mid-July 2008 the company restarted the operations at Pimenton at an initial rate of 50 tons per day. The Company declared commercial production effective October 1, 2008 at 91 tons per day of production.

The Company's limestone deposits at Catedral and Cal Norte contain high grade limestone which when calcined can produce lime that the Company's management believes will qualify for use by the Chilean mining industry. Improved economic conditions in Argentina have increased the cost Argentine lime imported by the Chilean mining industry making Chilean lime deposits more competitive.

Management believes that the values of the Pimenton gold mine, the potential porphyry copper deposit, the Catedral, Rino and Cal Norte limestone deposits, and the Tordillo, the Bandurrias and La Bella prospects are not currently reflected in the Company's market capitalization and will continue its efforts to demonstrate the underlying values of the Company's assets.

**Risks factors**

The Company is a minerals producing, exploration and development company with properties currently focused in Chile. Its mining activities involve numerous inherent risks. The Company is subject to various financial, operational and political risks that could significantly affect its profitability and operating cash flow. The Company minimizes these risks by careful management and planning. These risks include changes in local laws affecting the mining industry, a decline in the price of gold or copper, uncertainties inherent in estimating mineral reserves and mineral resources and fluctuations in the Chilean peso against the US dollar. The Company does not use

financial instruments to mitigate the risks of changes in the price of gold or currency fluctuations.

The Company operates in an international environment, and as such, is subject to currency risk. A significant portion of the Company's expenditures is denominated in Chilean pesos and Canadian dollars. A strengthening of these currencies could adversely affect the Company's costs denominated in US dollars. Recently the US dollar has strengthened significantly against both of these currencies. The value of the Chilean pesos to US dollar has a great effect on the Company's operations. The Chilean pesos is at a near all time high of CH 640. The Company is paid for its gold, copper and silver sales in equivalent US dollar while most of its costs of operations are in Chilean pesos.

The Company's business is very dependent on the price of gold which is subject to fluctuation by factors the Company cannot control. A drop in the price of gold could adversely affect the Company's financial condition, results of operations and cash flows. Lower gold prices may result in: a) asset impairment and a write-down of the asset carrying value, b) production cutbacks and c) cessation of operations.

The Company's Pimenton mine is highly dependent on generating its own electrical needs at the mine, plant and camp sites. Fuel costs have risen substantially and are expected to further increase. Higher fuel costs will have an adverse impact on profitably of the mine.

Mine labour costs in Chile are increasing which could adversely impact operating profits at the Pimenton mine.

The Company operates primarily in Chile and is exposed to the laws governing the mining industry in Chile. The Chilean government is currently supportive of the mining industry but changes in government regulations including taxation, repatriation of profits, restrictions on production, export controls, environmental compliance, expropriation of property and shifts in political stability of the country and labor unrest could adversely affect the Company's exploration efforts and production plans.

Gold reserves are reduced by production and therefore must be replaced by expanding existing gold deposits or finding new ones. There can be no assurance that the Company's development and exploration programs will result in new gold reserves. Mineral reserves and resources are estimates which may differ significantly from actual mining results.

Due to financial constraints the Company manages its operations with a limited number of key personnel. The need to replace any of these individuals could adversely affect the Company's operations until a qualified replacement is found.

The Company does not currently carry insurance for business interruptions nor does it carry insurance on its camp, plant, assay laboratory, fuel storage or garage facilities at Pimenton due to financial constraints.

The Company's mine is located in an area that can experience severe winter weather conditions which could adversely affect mining operations. Such conditions occurred during 2005, resulting in the shutdown of the mine. In addition, the Company is subject to environmental laws and regulations that are constantly changing and may require expenditures that are significantly different from our current estimates.

Readers should read the risk factors which are described in more detail in the Company's Annual Information Form for the year ended September 30, 2007. Such factors could materially affect future operating results of the Company and cause actual results to differ materially from those described in forward –looking information relating to the Company.

The Company's continuance as a going concern is dependent upon obtaining adequate funding, 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.

## DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's system of disclosure controls and procedures includes, but is not limited to, the effective functioning of our Audit Committee and procedures in place to systematically identify matters warranting consideration of disclosure by the Audit Committee.

As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by applicable Canadian securities laws. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under applicable Canadian securities laws, is recorded, processed, summarized and reported within time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

Internal control over financial reporting is a process designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP and includes those policies and procedures that:

(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the Company's GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the issuer; and

(c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements;

As at the end of the period covered by this management's discussion and analysis, management of the Company, under the supervision of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's internal control over financial reporting as required by applicable Canadian securities laws. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the internal control over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

During the most recent year end there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

# South American Gold and Copper Company Limited

Consolidated Financial Statements
**September 30, 2008 and 2007**
(expressed in thousands of U.S. dollars)

Amended as of January 16, 2009

## Management's responsibility for financial reporting

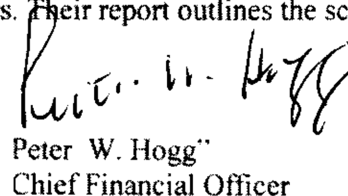
The consolidated financial statements and other information in this report were prepared by the management of **South American Gold and Copper Company Limited,** reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

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

Peter W. Hogg"
Chief Financial Officer

December 16, 2008

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, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

**Chartered Accountants, Licensed Public Accountants**
Toronto, Canada
December 16, 2008

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

# South American Gold and Copper Company Limited

Consolidated Balance Sheets

**As at September 30, 2008 and 2007**

(expressed in thousands of U.S. dollars)

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 153 | 344 |
| Restricted cash (note 11(a)) | 22 | 22 |
| Receivable from an officer and director (note 17) | 14 | - |
| Receivables (notes 9) | 110 | 73 |
| Recoverable taxes (note 7) | 2,131 | - |
| Product and supplies, inventory (note 5) | 396 | 78 |
| | 2,826 | 517 |
| Receivable from an officer and director (note 17) | 153 | 329 |
| Mining properties, plant and equipment (note 6) | 16,603 | 11,874 |
| Exploration properties (note 8) | 335 | 5,814 |
| Recoverable taxes (note 7) | 814 | 2,456 |
| **Total assets** | 20,731 | 20,990 |

Going concern and nature of operations (note 1)

Commitments (note 16)

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

# South American Gold and Copper Company Limited
Consolidated Balance Sheets ...*continued*
**As at September 30, 2008 and 2007**

(expressed in thousands of U.S. dollars)

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| Short-term lease (note 16) | 25 | - |
| Current portion of long-term debt (note 11) | 1,560 | 1,244 |
| Accounts payable and accrued liabilities | 1,052 | 1,037 |
| Taxes payable (IVA) | 490 | 466 |
| Amounts due to related parties (note 17) | 801 | 951 |
| | 3,928 | 3,698 |
| Long-term debt (note 11) | 2,610 | 2,574 |
| Long-term lease (note 16) | 50 | - |
| Long-term amounts due to related parties (notes 16 and 17) | 236 | - |
| Reclamation and remediation (note 14) | 1,856 | 884 |
| Non-controlling interest in consolidated subsidiary | - | 139 |
| **Total liabilities** | 8,680 | 7,295 |
| **Shareholders' Equity** | | |
| Share capital (note 10(b)) | 69,255 | 63,628 |
| Contributed surplus (note 13) | 2,580 | 708 |
| Convertible subordinated debentures (note 11(c)) | 907 | 907 |
| Options (note 10(c)) | 1,418 | 1,019 |
| Warrants (note 12) | 1,716 | 2,688 |
| Deficit and comprehensive loss | (63,825) | (55,255) |
| **Total shareholders' equity** | 12,051 | 13,695 |
| **Total liabilities and shareholders' equity** | 20,731 | 20,990 |

Going concern and nature of operations (note 1)

Commitments (note 16)

**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, comprehensive loss and deficit"

**For the years ended September 30, 2008 and 2007**

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

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| **Expenses** | | |
| Amortization | 15 | 681 |
| Temporary mine shutdown (notes 1 and 6) | 50 | 119 |
| General and administrative | 1,550 | 1,753 |
| Stock-based compensation (notes 10(b) and (c)) | 398 | 215 |
| Warrant revaluation (notes 12(b) and (g)) | 90 | 733 |
| Foreign exchange loss (gain) | (256) | 2 |
| Interest on long-term debt | 821 | 822 |
| | 2,668 | 4,325 |
| **Loss before undernoted** | (2,668) | (4,325) |
| Other income | 15 | 575 |
| Write off of exploration properties (note 8) | (6,056) | - |
| **Loss before income taxes and non-controlling interest in consolidated subsidiary's loss** | (8,709) | (3,750) |
| Non-controlling interest in consolidated subsidiary's loss | 139 | - |
| **Loss and comprehensive loss for the year** | (8,570) | (3,750) |
| **Deficit - Beginning of year** | (55,255) | (51,527) |
| Changes in accounting policies (note 2(o)) | - | 22 |
| **Deficit - End of year** | (63,825) | (55,255) |
| Basic and diluted loss per share (note 3) | (0.01) | (0.01) |

Going concern and nature of operations (note 1)

Commitments (note 16)

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

# South American Gold and Copper Company Limited

Consolidated Statements of Cash Flows

**For the years ended September 30, 2008 and 2007**

(expressed in thousands of U.S. dollars)

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Loss for the year | (8,570) | (3,750) |
| Non-cash items | | |
| Amortization | 15 | 681 |
| Accretion of interest on long-term debt (note 11) | 729 | 183 |
| Foreign exchange loss (gain) | (256) | 2 |
| Non-controlling interest in consolidated subsidiary's loss | (139) | - |
| Taxes and penalty | 64 | - |
| Write-off of exploration properties | 6,056 | - |
| Provision and withholding | 350 | - |
| Royalties | 20 | - |
| Non-cash employee share compensation (notes 10(b) and (c)) | 44 | 37 |
| Non-cash non-employee share compensation | 252 | - |
| Non-cash employee options | 354 | 178 |
| Non-cash warrant revaluation (notes 12(b) and (g)) | 90 | 733 |
| | (991) | (1,936) |
| Changes in non-cash working capital relating to operations (note 18) | (602) | 242 |
| | (1,593) | (1,694) |
| **Investing activities** | | |
| Additions to mining equipment | (716) | (61) |
| Mine development and mining properties capitalized (note 6, 8) | (3,291) | (429) |
| Receivable from an officer and director | (154) | (43) |
| Recoverable taxes | - | (270) |
| | (4,161) | (803) |
| **Financing activities** | | |
| Shares issued (note 10(b)) | 5,270 | 3,019 |
| Warrants exercised (note 10(b)) | 447 | 89 |
| Amounts due to related parties | 9 | - |
| Repayment of capital leases | (167) | (40) |
| Repayment of debt (note 11(a)) | - | (311) |
| | 5,559 | 2,757 |
| Effect of foreign exchange on cash and cash equivalents held in foreign currency | 4 | 12 |
| (Decrease)/Increase in cash during the year | (191) | 272 |
| **Cash - Beginning of year** | 344 | 72 |
| **Cash - End of year** | 153 | 344 |

Supplemental cash flow information (note 18)

Going concern and nature of operations (note 1)

Commitments (note 16)

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

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

## 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, which remained closed until July 2008. As at September 30, 2008, the Company reported a deficit of approximately $64 million and a working capital deficiency of approximately $1 million, and continues to incur significant cash outflows. In addition, at September 30, 2008, the Company was in breach of several lending covenants (Note 11) These conditions, together with the mine shutdown, cast significant doubt as to the ability of the Company to continue in normal business operations and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company's continuance as a going concern is dependent on reaching accommodations with its existing lenders, obtaining adequate funding, reaching profitable operations at the mine, pursuing joint venture partners, sale or other disposition of all or part of its assets, and/or securing 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 adjustments to the carrying values of the assets and liabilities, the reported expenses and the balance sheet classifications, with could be material, may be necessary.

**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 mine was closed in June 2005 due to snow damage. The Company was successful in raising funds in December 2007 to restart operations at Pimenton. The Company has declared the mine to be in commercial production effective October 1, 2008. The Company's principal exploration and development activities are being focused on its Pimenton gold mine. The Company also holds interests in Tordillo a gold / copper prospect, Bandurrias a Copper prospect and La Bella a gold prospect and limestone deposits. The Company also holds interests in limestone deposits.

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.

## 2 Summary of significant accounting policies

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

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

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)
Compañía Minera Tordillo Limitada
Minera Bandurria SAGC Limitada
Compañía Minera La Bella SAGC Limitada

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

**c) Accounts receivables**

Accounts receivables include the provisional invoicing of the sale of gold concentrates. These invoices are based on the Company's weights and assays, and are subject to review and final agreement by the customer. Changes between the prices recorded upon recognition of revenue and final price due to fluctuation in price of gold results in the existence of an embedded derivative in the receivable balances. This embedded derivative is recorded at fair value, with changes in fair value classified as a component of revenue.

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

**d) 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.

The Company regularly assesses the exploration and development costs for impairment. An impairment occurs when at least one of the following conditions are met:

Producing properties

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

Exploration properties

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

the carrying amount will be written down to its fair value and charged to operations.

**e) 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 measured resources”.

Expenditures for the continued development of the property are capitalized as incurred and are amortized using the UOP method over the estimated useful life of the mine based upon proven and probable reserves and mineral measured 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.

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

**f) 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.

**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 10(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

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

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.

**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 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) Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant areas where management judgement is applied include asset valuations, the recoverability of exploration and development expenditures on mineral properties, asset retirement obligations, stock based compensation, and contingent liabilities. In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented are reflected in these financial statements.

**n) Financial instruments.**

Effective October 1, 2006, the Company adopted the Canadian Institute of Chartered Accountants' new Handbook Section 1530, "Comprehensive Income", Section 3855, "Financial Instruments", and Section 3861, "Financial Instruments" – Disclosure and Presentation". These standards were adopted on a prospective basis but calculated retrospectively.

**Comprehensive income**

Section 1530 introduces new requirements for situations when certain gains and losses ("other comprehensive income" or "OCI") must be temporarily presented outside of net loss. Comprehensive

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

income includes both net loss and OCI. OCI is the change in shareholders' equity from non-owner sources which are not included in the calculation of net loss until realized. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income ("AOCI"), which is presented as a new category of shareholders' equity on the balance sheet. The Company had no OCI transactions during the year ended September 30, 2008, and no opening nor closing balances for AOCI.

**Financial instruments recognition, measurement, disclosure and presentation**

Under section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognised or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net loss.

Upon adoption of these standards, the Company has designated its cash as held-for-trading, which is measured at fair value. Receivables are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are designated as other liabilities, which are measured at amortized cost. At September 30, 2008, the Company had neither available-for-sale nor held-to-maturity financial instruments.

The Company evaluated the impact of Section 3855 on its September 30, 2007 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.

Section 3861 identifies and details information to be disclosed in the financial statements.

**Hedging**

This standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not hold any financial instruments designated for hedge accounting.

**o) Capital disclosures and financial instruments – Disclosures and presentation**

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on October 1, 2007.

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

**Capital disclosures**

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in note 20 to these consolidated financial statements.

**Financial instruments**

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in note 19 to these consolidated financial statements.

**p) New pronouncements not adopted**

**Goodwill and intangible assets**

The Canadian Institute of Chartered Accountants issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

**International Financial Reporting Standards ("IFRS")**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AsSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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

**Inventory**

In June 2007, a replacement section for inventories, Section 3031 "Inventories" was issued and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and eliminates the use of the "last-in, first-out" method of accounting and is effective for the fiscal years beginning on or after January 1, 2008.

## 3 Basic and diluted loss per share

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| Loss for the year | 8,570 | 3,750 |
| Weighted average number of shares outstanding - basic | 665,640,985 | 506,231,152 |
| 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.

## 4 Income taxes

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

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| Loss before income taxes and non-controlling interest in consolidated subsidiary's loss | 8,709 | 3,750 |
| Income tax recovery at Canadian federal and provincial statutory rates (2008 - 34.16%; 2007 - 36.12%) | 2,975 | 1,355 |
| Effect of expenses incurred in non-taxing jurisdictions | (40) | (44) |
| Effect of difference in regional income taxes compared with Canadian rates | (214) | (278) |
| Expenses not deductible for income tax purposes | (1,023) | (363) |
| Expenses deductible for income tax purposes, but not for book purposes | (425) | 85 |
| Effect of losses incurred for book purposes, the income tax benefits of which have not been recognized in these consolidated financial statements | (1,273) | (755) |
| (Recovery of) provision for future income taxes | - | - |

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

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

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| Mining properties, plant and equipment and exploration properties | 4,282 | 3,380 |
| Non-capital losses carried forward and other future assets | 3,258 | 4,446 |
| | 7,540 | 7,826 |
| Valuation allowance | (7,540) | (7,826) |
| Net future income tax liability | - | - |

As at September 30, 2008, the Company and its subsidiaries had available Canadian income tax loss carry-forwards of approximately $4.0 million that expire between 2008 and 2028, Chilean tax loss carry-forwards of approximately $9.5 million that can be carried forward indefinitely and U.S. tax loss carry-forwards of approximately $1.0 million that can be carried forward 20 years.

The Company has recorded a valuation allowance in the amount of $7,540,000 as at September 30, 2008 (2007 - $7,826,000) 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.

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 Product and supplies inventory

| | 2008 | 2007 |
|---|---|---|
| Concentrate inventory | 209 | - |
| Supplies inventory | 187 | 78 |
| | 396 | 78 |

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

## 6 Mining properties, plant and equipment

| | | | | **2008** |
|---|---|---|---|---|
| | **Estimated useful life** | **Cost $** | **Accumulated amortization $** | **Net $** |
| Mining properties | UOP | 3,969 | 740 | 3,229 |
| Buildings and equipment | 1-10 years | 7,605 | 5,074 | 2,531 |
| Mine development | UOP | 12,956 | 2,113 | 10,843 |
| | | 24,530 | 7,927 | 16,603 |

| | | | | **2007** |
|---|---|---|---|---|
| | **Estimated useful life** | **Cost $** | **Accumulated amortization $** | **Net $** |
| Mining properties | UOP | 3,969 | 740 | 3,229 |
| Buildings and equipment | 1-10 years | 6,238 | 4,638 | 1,600 |
| Mine development | UOP | 8,402 | 1,357 | 7,045 |
| | | 18,609 | 6,735 | 11,874 |

The cost of assets under capital leases and the related accumulated amortization amounted to $643,005 in 2008 (2007 - $nil) and $26,586 in 2008 (2007 - $nil), respectively.

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). Temporary mine shutdown expenses were $50,000 in 2008 (2007 - $119,000). In mid-July 2008 the Company restarted operations at Pimenton. The Pimenton Mine was declared to be in commercial production at October 1, 2008. Effective October 1, 2008 gold, copper and silver sales and operating costs will be reported in the statement of operations. Prior to October, 2008 gold sales and operating costs have been capitalized for financial accounting purposes. For the year ended September 30, 2008 the Company capitalized revenue of $329,444 against mine development expenditures.

Total amount capitalized for the year ended September 30, 2008 was $5,921,000. (2007 - $256,000)

## 7 Recoverable taxes

Recoverable taxes in the amount of $2,131,000 (2007 – nil) of the total of $2,945,000 at September 30, 2008 (2007- $2,456,000) have been classified as a short-term asset in the consolidated balance sheets. Recoverable taxes in the amount of $344,000 as at September 30, 2008 (2007 - $372,000) represent IVA taxes paid on the fixed assets, which can be recovered upon request to the Chilean tax authorities. The Company filed such

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

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.

## 8 Exploration properties

| | Catedral (a) $ | Cal Norte (b) $ | Pimenton Porphyry (c) $ | Chachas (d) $ | Tordillo (e) $ | Bandurrias (f) $ | La Bella (g) $ | Other (h) $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|
| Mining properties | | | | | | | | | |
| Balance as at September 30, 2006 | 1,092 | 54 | - | 77 | 18 | - | - | 10 | 1,251 |
| Additional costs capitalized | - | - | - | - | 94 | - | - | - | 94 |
| Writedowns | - | - | - | - | - | - | - | - | - |
| Balance as at September 30, 2007 | 1,092 | 54 | - | 77 | 112 | - | - | 10 | 1,345 |
| Additional costs capitalized | - | - | - | - | 75 | 112 | 96 | - | 283 |
| Writedowns | (1,092) | (54) | - | (77) | - | (60) | - | (10) | (1,293) |
| Balance as at September 30, 2008 | - | - | - | - | 187 | 52 | 96 | - | 335 |
| Exploration costs | | | | | | | | | |
| Balance as at September 30, 2006 | 2,306 | 1,296 | 411 | 54 | - | - | - | 67 | 4,134 |
| Additional costs capitalized | 41 | 113 | - | 41 | - | 131 | - | 9 | 335 |
| Writedowns | - | - | - | - | - | - | - | - | - |
| Balance as at September 30, 2007 | 2,347 | 1,409 | 411 | 95 | - | 131 | - | 76 | 4,469 |
| Additional costs capitalized | 53 | 24 | - | - | - | 23 | 31 | - | 131 |
| Reclasification | - | 47 | - | - | - | - | - | (47) | - |
| Writedowns | (2,400) | (1,480) | (411) | (95) | - | (154) | (31) | (29) | (4,600) |
| Balance as at September 30, 2008 | - | - | - | - | - | - | - | - | 0 |
| Summary - 2008 | | | | | | | | | |
| Mining properties | - | - | - | - | 187 | 52 | 96 | - | 335 |
| Exploration costs | - | - | - | - | - | - | - | - | - |
| Total as at September 30, 2008 | - | - | - | - | 187 | 52 | 96 | - | 335 |
| Summary - 2007 | | | | | | | | | |
| Mining properties | 1,092 | 54 | - | 77 | 112 | - | - | 10 | 1,345 |
| Exploration costs | 2,347 | 1,409 | 411 | 95 | - | 131 | - | 76 | 4,469 |
| Total as at September 30, 2007 | 3,439 | 1,463 | 411 | 172 | 112 | 131 | - | 86 | 5,814 |

During the year end September 30, 2008 the Company wrote off exploration and mining properties totaling $1,030,000. The Company considered that exploration results as not promising, and therefore wrote off its exploration costs.

Additionally, the Company wrote down its Catedral/Rino project in the amount of $3,492,000 and its Cal Norte project in the amount of $1,534,000.

In 2008 the total amount of these write downs were $6,056,000.

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

**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 17).

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.

The Company wrote off the balance of $3,492,000 in mining properties and explorations costs on Catedral as the properties had been on care and maintenance for more than three years.

**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 16).

As at September 30, 2008, the Company had contributed $1,534,000 (2007 - $1,463,000) to finance a bankable feasibility study on the project and for environmental permitting and further mine development on the project. Although the Company has incurred sufficient explorations expenditures to maintain the Property in good standing until September 30, 2008, it wrote off the carrying value of $1,534,000 during the current year as the property had been on care and maintenances for more than three years.

**c) Pimenton - Porphyry**

The Company has incurred sufficient explorations expenditures to maintain the Pimenton porphyry in good standing. As of September 30, 2008, it wrote off the carrying value of $411,000 as the exploration results were not promising.

**d) Chachas**

The Company has taken the decision not to continue with this project. Therefore the Company wrote off the balance of $172,000 in mining properties and explorations costs.

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

**e) Tordillo**

Tordillo was acquired by the Company in 2006.

**f) Bandurrias**

Bandurrias was acquired in August, 2007 by the Company by way of an option agreement for the property. Under the terms of the option agreement, $30,000 was paid on signing, $70,000 is due in six months, followed by four payments of $100,000 every six months, with a final payment at 36 months of $600,000. The balance of the $6,500,000 price or $5,400,000 will be paid in the form of a 5% Net Smelter Royalty. In April, 2008 the Company did not renew its option agreement on Bandurrias on certain claims and wrote off $214,000 relating to this option agreement. During the year the Company acquired certain other claims in surrounding areas where the Company has a 100% interest.

**g) La Bella**

The Company has signed an option agreement to earn a 100% interest on this project on December 7, 2007.

Under the terms of the Option Agreement (inner circle) the Company has paid $30,000 and $70,000 is due in December 2008, $200,000 in December 2009, $800,000 in December 2010, $900,000 in December 2011 and $1,000,000 in December 2012. The Company will pay a 2 ½% Net Smelter Royalty to the optionee from production thereafter.

On the outer circle the Company has an obligation to pay $100,000 in December 2008, 100,000 in December 2009, $500,000 in December 2010, $700,000 in December 2011, $1,000,000 in December 2012, $ 2,600,000 in December 2013. The Company will pay a 2 ½ % Net Smelter Royalty to the optionee of the inner circle from production thereafter.

In addition on the inner and outer circle the Company has a combined minimum exploration obligation of $50,000 in year one, $250,000 in year two and $700,000 in year three.

The Company has taken the decision to expense certain of its explorations costs amounting to $31,000.

**h) Other**

During the years ended September 30, 2008 and 2007, no other exploration costs and mining properties were expensed.

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

## 9 Receivables

Receivables consist of:

| | 2008 $ | 2007 $ |
|---|---|---|
| Accounts receivable | 96 | - |
| Other Sundry receivables | 14 | 73 |
| | 110 | 73 |

## 10 Share capital

### a) Authorized capital

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

### b) Issued and outstanding

| | 2008 | |
|---|---|---|
| | Number of shares | Amount $ |
| Outstanding - Beginning of year | 570,842,909 | 63,628 |
| Warrants exercised (i) | 9,936,090 | 680 |
| Private placement (ii) | 92,375,000 | 2,625 |
| Private placement (iii) | 4,928,485 | 143 |
| Share issuance (iv) | 5,340,773 | 236 |
| Share issuance (v) | 2,000,000 | 90 |
| Warrants exercised (vi) | 735,500 | 42 |
| Warrants exercised (vii) | 700,000 | 39 |
| Share issuance (viii) | 1,000,000 | 45 |
| Share issuance (ix) | 2,394,140 | 117 |
| Private placement (x) | 38,275,822 | 1,610 |
| Outstanding - End of year | 728,528,719 | 69,255 |

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

| | 2007 | |
|---|---|---|
| | **Number of shares** | **Amount $** |
| Outstanding - Beginning of year | 465,297,133 | 60,321 |
| Share issuance (xi) | 2,000,000 | 71 |
| Private placement (xii) | 2,000,000 | 87 |
| Share issuance (xiii) | 240,000 | 9 |
| Warrants exercised (xiv) | 2,190,039 | 138 |
| Private placement (xv) | 34,156,000 | 740 |
| Private placement (xvi) | 20,000,000 | 564 |
| Share issuance (xvii) | 3,266,588 | 118 |
| Private placement (xviii) | 2,800,000 | 75 |
| Share issuance (xix) | 6,501,212 | 294 |
| Private placement (xx) | 26,431,515 | 991 |
| Share issuance (xxi) | 1,000,000 | 37 |
| Share issuance (xxii) | 2,672,645 | 99 |
| Share issuance (xxiii) | 687,777 | 25 |
| Share issuance (xxiv) | 1,600,000 | 59 |
| Outstanding - End of year | 570,842,909 | 63,628 |

i) On October 31, 2007 participants in the December 10, 2003 private placement exercised 9,936,090 warrants at a price of CA$0.04 per share for net proceeds of $390,446. The fair value of $288,703 assigned to these warrants was transferred to share capital.

ii) 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 $3,397,626, of which $697,075 was assigned to the warrants and $84,772 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 80%.

iii) 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%. On January 15, 2008, the remaining 4,928,485 units were issued on the same terms as above. Net proceeds of the placement were $220,022, of which $77,818 was assigned to the warrants. The fair value of the warrants was assigned using the Black-Scholes valuation method assuming a risk-free interest rate of 2.8%, no

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dividend and a volatility factor of 80%. The subscriber, an officer and director of the Company, subscribed and paid for all of 31,360,000 units of this private placement.

iv) On January 15, 2008, the Company issued 5,340,773 common shares in settlement of two employee wage liabilities of $236,071. The shares were valued at $236,071, using the TSX closing price on January 15, 2008 resulting in no gain or loss.

v) On February 1, 2008, the Company entered into a retirement agreement with the former Chief Financial Officer under which he received 2,000,000 Bonus Shares. The shares were valued at $90,270, using the TSX closing price on January 31, 2008.

vi) In March 2008, broker participants in the February 22, 2007 private placement exercised 735,500 broker warrants at a price of CA$0.04 per share for net proceeds of $29,420. The fair value of $12,087 assigned to these warrants was transferred to share capital.

vii) In April 2008, broker participants in the February 22, 2007 private placement exercised 700,000 broker warrants at a price of CA$0.04 per share for net proceeds of $27,635. The fair value of $11,504 assigned to these warrants was transferred to share capital.

viii) On April 29, 2008 an officer and director received 1,000,000 bonus shares valued at $44,474 using the TSX closing price of CA $0.045 per share.

ix) On May 23, 2008, 2,394,140 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 $1,600,000 of convertible subordinated debentures. The shares were valued at $116,999 using the TSX proceeding day closing price.

x) On September 9, 2008, the Company sold through a non broker private placement 38,275,822 Units. Three Directors, two of whom are also officers of the Company purchased 22,000,000 Units of the private placement. Each Unit was priced at $0.05. Each Unit consists of one common share and one-half warrant. Each whole warrant is exercisable for a period of two years from the date of closing at an exercise price of $0.07. Net proceeds of the placement were $1,872,421, of which $ 262,270 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 80%.

xi) 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.

xii) 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.

xiii) 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.

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

xiv) 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.

xv) 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%.

xvi) 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%.

xvii) 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.

xviii) 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%.

xix) 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.

xx) 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

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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 remaining 4,928,485 units were issued on the same terms as above on January 15, 2008. Net proceeds of the placement were $220,022, of which $77,818 was assigned to the warrants. The fair value of the warrants was assigned using the Black-Scholes valuation method assuming a risk-free interest rate of 2.8%, no dividend and a volatility factor of 80%. The subscriber, an officer and director of the Company, subscribed and paid for all of 31,360,000 units of this private placement.

xxi) 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.

xxii) 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.

xxiii) 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.

xxiv) 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.

**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 150,000,000 common shares and 40,000,000 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.

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

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

| | | | **2008** |
|---|---|---|---|
| | **$** | **Number of options** | **Weighted average exercise price CA$** |
| Outstanding - Beginning of year | 1,019 | 61,395,000 | 0.074 |
| Changes during the year | | | |
| Granted (i) | 399 | 29,289,538 | 0.045 |
| Expired | - | (735,000) | 0.056 |
| Outstanding - End of year | 1,418 | 89,949,538 | 0.065 |
| Exercisable - End of year | | 73,510,000 | |

| | | | **2007** |
|---|---|---|---|
| | **$** | **Number of options** | **Weighted average exercise price CA$** |
| Outstanding - Beginning of year | 842 | 58,895,000 | 0.080 |
| Changes during the year | | | |
| Granted (ii) | 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 | |

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

i) Also, the Company issued on March 13, 2008 25,000,000 Common Stock Options exercisable at CA.$ 0.045 per share for a period of four years from the date of issuance, which were issued to the President of the Company (10,000,000 options) and three new Directors and two Serving Directors who are not officers of the Company (15,000,000 options). These options were fair valued at $312,672, using the Black –Scholes valuation model, assuming a risks-free rate of 3.6%, no dividend, and volatility factor of 80%, and a vesting period between three and four years. This options were expensed as stock-based compensation, In addition, seven employees who are not officers of the Company were awarded a total of 1,950,000 common stock options having a five years life with immediate vesting at a price of CA.$0.045 per share. These options were fair valued at $57,595 using the Black –Scholes valuation model, assuming a risks-free rate of 3.6%, no dividend, and volatility factor of 80% and expensed as stock-based compensation. On April 30, 2008, 2,339,538 Common Stock Options were granted to a new director of the Company at an exercise price of CA$0.05 per share, exercisable for a period of four years from the date of issuance, and a vesting period of three years. The options were valued at a fair value at $27,792, using the Black –Scholes valuation model, assuming a risk- free rate of 3.04%.

ii) 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.

The Company recognized the total stock based compensation of $442,533 (2007 - $177,000) of which $44,314 (2007 – nil) charged to mine development and $398,259 charged to stock based compensation.

Options outstanding as at September 30 are as follows:

| | | | | **2008** |
|---|---|---|---|---|
| **Exercise price $** | **Number of options** | **Weighted average remaining contractual life (years)** | **Weighted average exercise price CA$** | **Options exercisable** |
| 0.090 | 8,000,000 | 1.0 | 0.090 | 8,000,000 |
| 0.070 | 2,000,000 | 1.4 | 0.070 | 2,000,000 |
| 0.070 | 13,695,714 | 1.5 | 0.070 | 13,695,714 |
| 0.065 | 5,714,286 | 2.4 | 0.065 | 5,714,286 |
| 0.090 | 21,250,000 | 4.5 | 0.090 | 20,950,000 |
| 0.040 | 10,000,000 | 4.7 | 0.040 | 10,000,000 |
| 0.045 | 25,000,000 | 3.5 | 0.045 | 10,600,000 |
| 0.050 | 2,339,538 | 3.5 | 0.050 | 600,000 |
| 0.045 | 1,950,000 | 4.5 | 0.045 | 1,950,000 |
| | 89,949,538 | 3.25 | 0.065 | 73,510,000 |

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

| | | | | **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 |

## 11 Long-term debt

| | | **2008** | **2007** |
|---|---|---|---|
| **Description** | **ıterest rate** | **Principal $** | **Principal $** |
| OPIC note, due on June 30, 2009 (a) | 8.27% | 677 | 705 |
| OPIC note, due on June 30, 2009 (a) | 8.39% | 908 | 921 |
| Pimenton note, due on December 15, 2009 (b) | 5% under certain conditions | 1,689 | 1,506 |
| Convertible secured debentures, due March 31, 2013 (c) | | 933 | 828 |
| Loan origination expense | | (37) | (142) |
| | | 4,170 | 3,818 |
| Less: Current portion | | 1,560 | 1,244 |
| Long-term debt | | 2,610 | 2,574 |

Interest paid by the Company was $64,856 and $77,933 for the years ended September 30, 2008 and 2007, respectively.

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

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

| | **Long-term debt $** |
|---|---|
| Fiscal year ended September 30, | |
| 2009 | 1,560 |
| 2010 | 1,944 |
| 2011 | - |
| 2012 | - |
| 2013 and thereafter | 1,600 |
| | 5,104 |
| Less: Future accretion | 934 |
| | 4,170 |

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, 2008 and 2007 was $22,000.

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 $37,000 as at September 30, 2008 (2007 - $142,000) 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.

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

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.

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. 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 \$1,688,949 as at September 30, 2008 (2007 - \$1,505,292), with \$183,656 being charged to interest expense in 2008 (2007 - \$82,750). 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 17). 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.

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

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 $932,970 as at September 30, 2008 (2007 - $828,808), with $105,162 being charged to interest expense in 2008 (2007 - $74,443). By March 31, 2013, the carrying amount of the notes will have been accreted to $1,600,000, the face amount due upon maturity.

## 12 Warrants

| | | **2008** |
|---|---|---|
| | **Number of warrants** | **$** |
| Balance - September 30, 2007 | 175,583,372 | 2,688 |
| Exercised (note 10(i)) | (9,936,090) | (288) |
| Issued (note 10(ii)) | 51,804,437 | 783 |
| Issued (note 10(iii)) | 4,928,485 | 78 |
| Exercised (note 10(vi)) | (735,500) | (12) |
| Issued (note 10(vi)) | 735,500 | 3 |
| Modified (b) | - | 48 |
| Modified (g) | - | 34 |
| Exercised (note 10(vii)) | (700,000) | (11) |
| Issued (note 10(vii)) | 700,000 | 3 |
| Issued (note 10(x)) | 19,137,911 | 262 |
| Expired warrants (a) | (68,095,087) | (1,872) |
| Balance - September 30, 2008 | 173,423,028 | 1,716 |

| | | **2007** |
|---|---|---|
| | Number of warrants | $ |
| Balance - September 30, 2006 | 90,521,216 | 1,444 |
| Exercised (note 10(b)(xiv)) | (2,190,039) | (64) |
| Issued (note 10(b)(xv)) | 34,156,000 | 201 |
| Issued (note 10(b)(xv)) | 2,390,000 | 39 |
| Issued (note 10(b)(xvi)) | 20,000,000 | 115 |
| Issued (note 10(b)(xviii)) | 2,800,000 | 22 |
| Issued (note 10(b)(xx)) | 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 |

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

a) Warrants expiring during 2008 were valued at $1,872,000 (note 13).

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 $47,885, 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 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 80%.

   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 when they expired. 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, was 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 80%.

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. 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, was 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, was 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, was 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%.

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

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.

g) 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 $34,333, 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 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 80%. These warrants were further extended to March 31, 2008, at which time they expired.

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

| | | **2008** |
|---:|---:|---:|
| **Number of warrants outstanding** | **Weighted average remaining warrant life (years)** | **Weighted average exercise price CA$** |
| 65,120,680 | 0.41 | 0.051 |
| 26,431,515 | 1.72 | 0.070 |
| 6,000,000 | 2.21 | 0.250 |
| 51,804,437 | 1.21 | 0.060 |
| 4,928,485 | 1.72 | 0.070 |
| 19,137,911 | 1.94 | 0.070 |
| 173,423,028 | 1.12 | 0.070 |

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

| | | **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 |

## 13 Contributed surplus

| | **$** |
|---|---|
| Balance - September 30, 2006 and 2007 | 708 |
| Warrants expired (note 12(a)) | 1,872 |
| Balance - September 30, 2008 | 2,580 |

## 14 Reclamation and remediation

The Company's mining and exploration activities are subject to various Chilean laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are becoming more restrictive. Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate on which the estimated cash flows have been discounted. The total undiscounted amount of estimated cash flows of $3,825,000 is expected to be incurred over a period extending to ten 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.

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

| | **2008 $** | **2007 $** |
|---|---|---|
| Balance - Beginning of year | 884 | 635 |
| Increase in liabilities (i) | 972 | 249 |
| Balance - End of year | 1,856 | 884 |

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

i) The increase is due to changes in estimated future costs.

## 15 Segmented information

Substantially all of the Company's assets and revenues are located in Chile. Historically, the Company's management has viewed the exploration and development activities of the Company in Chile as one segment. 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 $20,731,000 and $20,990,000 as at September 30, 2008 and 2007, respectively, $21,639,000 and $14,851,000, respectively, relate to Pimenton.

| | | | **2008** |
|---|---|---|---|
| | **Pimenton**<br>**$** | **Corporate**<br>**$** | **Total**<br>**$** |
| Amortization | 15 | - | 15 |
| Temporary mine shutdown | 50 | - | 50 |
| Writte-off of exploration properties | - | 6,056 | 6,056 |
| General and administrative | 556 | 994 | 1,550 |
| Stock-based compensation | - | 398 | 398 |
| Warrant revaluation | - | 90 | 90 |
| Foreign exchange | (28) | (228) | (256) |
| Interest expense | 599 | 222 | 821 |
| Other income | (15) | - | (15) |
| Minority interest | - | (139) | (139) |
| Loss and comprehensive loss for the year | 1,177 | 7,393 | 8,570 |

| | | | **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)

Of the corporate segment's losses of $7,393,000 and $2,448,000 in 2008 and 2007, respectively, approximately $6,144,456 of loss and $41,000 of loss, respectively, relate to Chilean activities, with the remainder reflecting primarily corporate's activities in Canada, the United States and Bermuda.

## 16 Commitments

### a) Project commitments

| Project | Description | Total potential commitment $ | Paid to date $ |
|---|---|---|---|
| Catedral and Rino | A loan for development costs (note 17) | 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 |
| La Bella | La Bella inner was acquired in December 2007 by the Company by way of an option agreement of the property. Under the terms of the option agreement US$10,000 was paid on signing; US$20,000 was paid in six months;$70,000 at the end of the first year; $200,000 at the end of the second year; $800,000 at the end of the third year, $900,000 at the end of the fourth year and $1,000,000 at the end of the fifth year. The Company will pay a 2 ½% Net Smelter Royalty from production thereafter. The Company also has a minimum investment obligation of $50,000 in year one; $250,000 in year two and $700,000 in year three.<br><br>On the outer circle the Company has an obligation to pay $100,000 in December 2008, $100,000 in December 2009, $500,000 in December 2010, $700,000 in December 2011, $1,000,000 in December 2012 and $2,600,000 in December 2013. The Company will pay a 2½ % net smelter royalty to the optionee of the inner circle from production thereafter. | 9,000 | 30 |
| Cal Norte | Capital contribution of $1,800,000 to earn 60% equity interest (note 8(b)) | 1,800 | 1,406 |

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

### b) Lease commitments

The Company is committed to future minimum lease payments under capital lease arrangements:

| Year ending | September 30, |
|---|---|
| | $ |
| 2009 | 178,464 |
| 2010 | 178,464 |
| 2011 | 129,520 |
| | **486,448** |
| **Interest** | **(52,645)** |
| | **433,803** |

From the total capital lease obligation held by the Company at September 30, 2008, $359,000 is due to related parties and has been allocated: $123,235 in the short-term portion and $235,863 in the long-term amounts due to related parties.

## 17 Related party transactions

A Company owned by chief executive officer, who is also a director, billed the Company $78,286 in 2008 (2007 - $97,377) for the provision of office space and services by the Company.

Receivable from an officer and director of $152,978 (2007 - $329,000) is the net amount of non-interest-bearing note receivable compensations and advances to the chief executive officer who is also a director of the Company. The note is 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.

The Chief Financial Officer of the Company retired on February 6, 2008 at which time he was owed $207,260. The Company entered into a retirement agreement with the former Chief Financial Officer under which he received 2,000,000 Bonus Shares and was paid $17,648 for the difference between the net sales price of the 2,000,000 Bonus Shares and $100,000. In addition he has been paid $5,000 per month beginning February, 2008 and will continue to be paid at the rate of $5,000 per month until Pimenton is placed into commercial production at which time he will receive $7,500 per month until the net balance of $67,260 as of September 30. The Chief Financial Officer billed $63,279 for accounting services rendered to the Company in 2008 (2007 - $108,694). Amounts due to related parties include payables to this officer of $264,000 for such services.

A Company controlled by the Chief Financial Officer billed the Company $20,731 for accounting services rendered in the period ended September 30, 2008 ( 2007 - $nil). Amounts due to related parties include payables to this officer of $9,051 for such services at September 30, 2008 (2007 - $nil).

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

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 $876,378 at September 30, 2008 (2007 - $755,076) and interest expense was $48,879 in 2008 (2007 – $48,746). Amounts due to related parties include $195,238 (2007 - $146,359) for interest and $101,646 for royalties as at September 30, 2008 (2007 - $91,802).

Amounts due to related parties include $193,926 and $145,362 as at September 30, 2008 and 2007, 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 $870,787 and $750,217 as at September 30, 2008 and 2007, respectively (note 11(b)). In addition, amounts due to related parties include $101,645 and $91,802 at September 30, 2008 and 2007, respectively, for royalties due to this officer and director who is the owner of a Net Smelter Royalty on the Pimenton gold mine.

The Executive Vice President and Director of Exploration and the Executive Vice President of Land and Administration, both of whom are Directors of the Company in April, 2008 entered into an agreement to purchase for the Company's wholly owned subsidiary, Compania Minera Pimenton, certain equipment on terms not currently available to the Company. The purchase price amounted to $440,038. The Company has made a 25% payment against the purchase price of the equipment and the balance was funded by these two Officers and Directors under the 37 months lease agreement.

The Executive Vice President and Director of Exploration, who is also a Director of the Company in June, 2008 agreed to guarantee the payment of a 37 month lease purchase agreement enter into by the Company on February 23, 2008 with a local Chilean bank for the purchase of certain equipment whose purchase price was $150,672.

The Executive Vice President and Director of Exploration, who is also a Director of the Company in June, 2008 entered into an agreement to purchase for the Company's wholly owned subsidiary, Compania Minera Pimenton, certain equipment on terms not currently available to the Company. The purchase price was $83,998. The Company has made a 20% payment against the purchase price of the equipment and the balance was funded by this Officer and Director under the 37 months lease agreement.

The Executive Vice President and Director of Land and Administration, and a Director of the Company in April, 2008 entered into 37 month lease purchase agreement to purchase for the Company's wholly owned subsidiary, Compania Minera Pimenton, certain equipment, on terms not currently available to the Company. The purchase price amounted to $203,693.

Two officers and directors of the Company hold the non-controlling interest in Catedral (note 8(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.

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 in the amount

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of $1,600,000. Interest expense was $93,949 and $117,760 for periods ended September 30, 2008 and 2007, respectively. Amounts due related parties include payables to these officers of $35,952 and $59,001 as at September 30, 2008 and 2007, respectively, for interest on this debt. On August 13, 2007, 2,672,645 shares were issued in payment of interest due on the 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. On May 23, 2008, 2,394,140 shares were issued in payment of interest on the 10 % convertible subordinated debentures. The shares were valued at $116,999, using the TSX proceeding days closing price.

Amounts due to related parties also include cash advances of $8,909 at June 30, 2008 to the Company from the Executive Vice President – Director of Land and Administration, who is also a Director of the Company.

The Executive Vice President and Director of Land and Administration, and a Director of the Company on July 11, 2008 bought from Compañía Minera Pimenton certain equipment. The sale price was $13,575. This transaction generated $5,326 loss to the Company.

The Chief Executive Officer, the Executive Vice President, Director of Exploration and the Executive Vice President, Director of Administration who are also Directors of the Corporation hold a total of 3.2% Net Smelter Royalty interest on Tordillo, a 3.2% Net Smelter Royalty interest on Bandurrias and a 2.50% Net Smelter Royalty interest on La Bellas. These Net Smelter Royalty interests were approved by the Board of Directors and Compensation Committee of the Company in 2001. These individuals have not received compensation and benefits comparable to mining industry standards since 2001.

## 18 Supplemental cash flow information

| | 2008<br>$ | 2007<br>$ |
|---|---|---|
| Changes in non-cash working capital relating to operations | | |
| Receivables | (132) | 63 |
| Materials and supplies | (109) | (3) |
| Recoverable taxes | (489) | - |
| Accounts payable and accrued liabilities, excluding interest in accrued liabilities | 121 | 42 |
| Taxes payable (IVA) | 24 | 68 |
| Amounts due to related parties | (17) | 72 |
| | (602) | 242 |
| Significant non-cash financing and investing activities | | |
| Shares and warrants issued | (92) | 673 |
| No income taxes were paid during 2008 and 2007 | | |
| Total interest paid | 256 | 78 |

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

## 19 Financial Risks Factors

The Company's risks exposures and the impact on the Company's financial instruments are summarized below:

**Credit Risk**

The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to receivables is remote.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. As at September 30, 2008, the Company's deficit was $63.8 million and a working capital deficiency of approximately $1.2 million, and continues to incur significant cash outflows. At September 30, 2008, cash was $153,000 and $22,000 in current restricted cash.

To preserve its cash position the Company plans to concentrate its efforts on Pimenton and substantially defer expenditures on other projects until Pimenton comes on line. The Company believes with the non-brokered private placement financing to cover its working capital shortfall it will have adequate cash to put the Pimenton mine back into commercial production in October 2008 at which time Pimenton will provide sufficient cash flow to support the Company's ongoing operations.

**Factors risks**

The Company is a minerals producing, exploration and development company with properties currently focused in Chile. Its mining activities involve numerous inherent risks. The Company is subject to various financial, operational and political risks that that could significantly affect its profitability and operating cash flow. The Company minimizes these risks by careful management and planning. These risks include changes in local laws affecting the mining industry, a decline in the price of gold or copper, uncertainties inherent in estimating mineral reserves and mineral resources and fluctuations in the Chilean peso against the US dollar. The Company does not use financial instruments to mitigate the risks of changes in the price of gold or currency fluctuations.

The Company operates in an international environment, and as such, is subject to currency risk. A significant portion of the Company's expenditures is denominated in Chilean pesos and Canadian dollars. A strengthening of these currencies could adversely affect the Company's costs denominated in US dollars. Recently the US dollar has weakened significantly against both of these currencies.

The Company's business is very dependent on the price of gold which is subject to fluctuation by factors the Company cannot control. A drop in the price of gold could adversely affect the Company's financial condition, results of operations and cash flows. Lower gold prices may result in: a) asset impairment and a write-down of the asset carrying value, b) production cutbacks and c) cessation of operations.

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

The Company's Pimenton mine is highly dependent on generating its own electrical needs at the mine, plant and camp sites. Fuel costs have risen substantially and are expected to go higher. Higher fuel costs will have an adverse impact on profitably of the mine.

Mine labour costs in Chile are increasing which could adversely impact operating profits at the Pimenton mine.

The Company operates primarily in Chile and is exposed to the laws governing the mining industry in Chile. The Chilean government is currently supportive of the mining industry but changes in government regulations including taxation, repatriation of profits, restrictions on production, export controls, environmental compliance, expropriation of property and shifts in political stability of the country and labour unrest could adversely affect the Company's exploration efforts and production plans.

Gold reserves are reduced by production and therefore must be replaced by expanding existing gold deposits or finding new ones. There can be no assurance that the Company's development and exploration programs will result in new gold reserves. Mineral reserves and resources are estimates which may differ significantly from actual mining results.

Due to financial constraints the Company manages its operations with a limited number of key personnel. The need to replace any of these individuals could adversely affect the Company's operations until a qualified replacement is found.

The Company does not currently carry insurance for business interruptions nor does it carry insurance on its camp, plant, assay laboratory, fuel storage or garage facilities at Pimenton due to financial constraints.

The Company's mine is located in an area that can experience severe winter weather conditions which could adversely affect mining operations. Such conditions occurred during 2005, resulting in the shutdown of the mine. In addition, the Company is subject to environmental laws and regulations that are constantly changing and may require expenditures that are significantly different from our current estimates.

Readers should read the risk factors which are described in more detail in the Company's Annual Information Form for the year ended September 30, 2008. Such factors could materially affect future operating results of the Company and cause actual results to differ materially from those described in forward –looking statements relating to the Company.

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.

**Sensitivity analysis**

As of September 30, 2008, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

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

The Company believes the following movements are "reasonably possible" over a twelve-month period:

(i) There would be no impact on the cash held as the Company does not earn any interest on this cash.

(ii) The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

## 20 Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties.

The acquisition, exploration, financing and development of natural resources require the expenditure of significant funds before production commences. Historically, the Company has financed these activities through the issuance of common shares, the exercise of options and common share purchase warrants, promissory notes and debentures, bank debt and extended terms from creditors.

The Company has not declared or paid any dividends and does not foresee the declaration or payment of dividends in the near future. Any decision to pay dividends on its shares will be made by the board of directors on the basis of the Company's earnings, financial requirements and other conditions existing at such future time.

## 21 Comparative amounts

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

## 22 Subsequent Events

On September 26, 2008 the Company received conditional approval from the Toronto Stock Exchange for the issuance of Convertible Debenture secured by equipment leases totalling Cdn $706,808, which are still subject to the Toronto Stock Exchange final approval. The Convertible Debentures are non interest bearing and are convertible at Cdn $0.05 per share or for up to a total of 14,136,160 shares. Under the terms of the Convertible Debentures, the net amount (total lease payments less lease payments made less the balance of interest due on the remaining lease payments) shall be convertible into common shares of the Company. The total lease payments are Cdn $17,600 per month. As the lease payments are made by Compañía Minera Pimenton, the amount of the Convertible Debenture is correspondingly reduced. Compañía Minera Pimenton may on 30 days notice to the lessors prepay the net amount due to be paid to the lessor less all remaining interest due under the leases or the lessor may elect to take the balance of the lease payment (net of interest on the remaining lease payments) in shares of the Company within the 30 day notice period.

The Convertible Debentures will be issued to secure certain equipment leases used to purchase equipment for the Pimenton gold mine on terms not currently available to Pimenton.

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

On December 12, 2008 the Company received conditional approval from the Toronto Stock Exchange for the private placement of $385,000 or Cdn$485,215 at Cdn$ 0.025 per share or 19,408,600 common stock of the Company plus one half common stock purchase warrant, each whole warrant to be exercisable into one share of common stock of the Company at Cdn$0.045 per share for a period of 24 months from the date of issuance.

In addition the placement agent is to receive 1,209,888 common stock purchase warrants exercisable for 24 months from the date of issuance at Cdn$0.025 per share.

A Director who is also an officer of the Company participated in the placement for $85,000 at Cdn$0.025 per shares or 4,285,020 common stock of the Company, plus purchase warrants to purchase up to 2,145,510 common shares of the Company at Cdn$ 0.045 per share for a period of 24 months from date of issue on which no placement agent fees will be paid or warrants issued.

## Directors* and Officers

**Paul J. DesLauriers*(1),(2)**
Toronto, Canada
*Chairman*
Executive Vice President and Director
Loewen, Ondaatje, McCutcheon & Company
Limited, Toronto, Canada

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

**Patrick Esnouf***
Santiago, Chile
*President*

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

**William Hill*(1)**
Rock wood, ON, Canada
*Principal, William Hill Mining Consultants, Ltd.*

**Juan A Proaño***
Potomac, Maryland

**Frederick D. Seeley*(1),(2)**
New York, New York
Chairman, Givens Hall Bank and Trust Limited,

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

**John J. Selters***
Santiago, Chile

**Richard J. Lachcik***
Toronto, ON, Canada

**Peter W. Hogg**
Toronto, ON, Canada
*Chief Financial Officer*

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

## Corporate Information

**Website: www.sagc.com**

**Toronto Stock Exchange**
Stock Symbol: SAG

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**New York Representative Office:**
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Telephone: (212) 751-0083

**Exploration and Development Office:**
La Concepcion 266, Of. 704
Providencia, Santiago, Chile
Telephone: 56-2-264-2295

Solicitors:
**McLeod Dixon LLP**
Toronto, Ontario, Canada

Auditors:
**PricewaterhouseCoopers LLP**
Toronto, Ontario, Canada

Stock Registrar and Transfer Agent
**Computershare Investor Services**
Toronto, Ontario, Canada