

**SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED**

**Report to Shareholders  
For the  
First Quarter Ending  
December 31, 2001**

**Listed on the Toronto Stock Exchange  
Symbol: SAG**

**SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED**  
**(A development stage company)**  
**FINANCIAL REVIEW**  
**FIRST QUARTER ENDED DECEMBER 31, 2001**  
(Expressed in United States dollars)

The following discussion should be read in conjunction with the consolidated financial statements and related notes thereto which appear in the Company's 2001 annual report.

**Results of Operations**

The Company is engaged in exploration and development activities and to date has had no operating income or cash flow. The Company incurred losses of \$221,000 and \$139,000 or the quarters ended December 31, 2001 and 2000, respectively.

Administrative expenses increased from \$41,000 to \$85,000 due to increased activity in the Santiago office. The foreign exchange gain of \$21,000 is due to the stronger US dollar and Canadian dollar debt. Interest expense increased from \$89,000 to \$157,000 because a promissory note due December 31, 2001, bearing no interest, was not paid and under the terms of the note the Company is liable to pay interest at 10% per annum for the period from March 13, 2000, until the note is paid or its terms renegotiated. At December 31, 2001, interest on the note amounted to \$68,000.

For the quarter ended December 31, 2000, the Company had a loss of \$139,000 compared to income of \$841,000 in fiscal 2000 which included a gain in the extinguishment of debt of \$1,007,000. Excluding this gain, expenses were down \$27,000. Administrative expenses declined from \$98,000 to \$41,000 due to management's continuing efforts to control costs. Interest expense increased from \$68,000 to \$89,000 due to the accretion necessary to bring the notes and debentures to their face values by their maturity dates.

**Liquidity and Capital Resources**

The acquisition, exploration, financing and development of natural resources requires the expenditure of significant funds before production commences. To date, the Company has financed these activities through the issuance of its common shares and debentures, bank debt and extended terms from creditors. The Company expects to use bank or debt financing, joint venture and/or sales of its interest in some of its mineral prospects as well as the issuance of common shares, as market conditions permit, to finance future activities. The Company does not currently possess the capital required to develop its projects and without such capital the potential for impairment of its projects exists. Under the Debentures, the Company's ability to borrow is limited to the notes payable of \$1,473,000 and short term bank borrowings secured by taxes recoverable. Funding opportunities for the Company's exploration and development activities are being affected by gold price levels.

Cash was \$14,000 at December 31, 2001. Certain officers and directors have advanced approximately \$251,000 to the Company as of December 31, 2001. On February 12, 2002, the Company received \$520,000 from a private placement of 24,000,000 units at Cdn \$0.04125 per unit, each unit comprised of one common share and one-half of one common share warrant.

## **Outlook**

The Company's future profitability is dependent upon its success in identifying economically recoverable resources and its ability to sell, joint venture or finance the construction and operations to extract such resources.

- SAGC continues to take steps to further develop its non-metallic resources, including its Catedral and Rino limestone deposits as well as Cal Norte, formed in 1999, and its acquisition of the Compañía Minera Quelon limestone deposits and related mining infrastructure.
- The Company continues its "awareness program" which demonstrates the critical shortage of metallurgical grade lime in the Central Regions of Chile and has identified its Cal Norte and Catedral/Rino Lime Projects as a strategic solution to this lime shortage.
- The Company has completed a favorable feasibility study on its Cal Norte Lime Project and in October 2000 received all the requisite environmental permits. SAGC is pursuing project financing for this project. The capital cost of this project, currently estimated at \$8,500,000, will depend on final selection of a fuel firing system (coal versus oil) and on contractual terms (turnkey versus non-turnkey) selected by the Company.

Future profitability will also be affected by government and regulatory authorities in the countries in which the Company operates. The Company is not aware of any current or pending regulations in these countries that would have a material impact on its operations.

**SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED**  
**(A development stage company)**

**Consolidated Balance Sheets (Unaudited)**  
(Expressed in thousands of United States dollars)

	December 31, 2001	September 30, 2001
<b>Assets</b>		
Current assets		
Cash	\$ 14	\$ 8
Other current assets	<u>69</u>	<u>66</u>
	83	74
Capital assets	38	40
Exploration properties	18,480	18,342
Other assets	<u>15</u>	<u>17</u>
<b>Total assets</b>	<b><u>\$ 18,616</u></b>	<b><u>\$ 18,473</u></b>
<b>Liabilities</b>		
Current liabilities		
Note payable	\$ 377	\$ 383
Accounts payable and accrued liabilities	697	402
Other liabilities	<u>40</u>	<u>37</u>
	1,114	822
Debentures	205	196
Notes payable	1,096	1,036
Non controlling subsidiary shareholder interest	135	132
<b>Shareholders' equity</b>		
Share capital	47,760	47,760
Contributed surplus	283	283
Warrants	171	171
Deficit	<u>(32,148)</u>	<u>(31,927)</u>
	<u>16,066</u>	<u>16,287</u>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 18,616</u></b>	<b><u>\$ 18,473</u></b>

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

**SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED**  
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**Consolidated Statements of Income (Loss) and Deficit (Unaudited)**

(Expressed in thousands of United States dollars except per share amounts)

	Three months ended December 31,		Cumulative from inception on May 6, 1991
	2001	2000	
<b>Income</b>			
Revenues from mining operations	\$ -	\$ -	\$ -
<b>Expenses</b>			
Administrative	85	41	9,237
Write-down of mining properties	-	-	25,006
Foreign exchange	(21)	9	(218)
Interest	<u>157</u>	<u>89</u>	<u>2,375</u>
	221	139	36,400
Less:			
Gain on extinguishment of debt	-	-	3,706
Interest income	<u>-</u>	<u>-</u>	<u>546</u>
Net income (Loss)	<u>\$ (221)</u>	<u>\$ (139)</u>	<u>\$ (32,148)</u>
Net income (Loss) per share			
Basic	\$ 0.00	\$ 0.00	-
Diluted	\$ 0.00	\$ 0.00	-
Deficit, beginning of period	\$ 31,927	\$ 19,708	-
Net income (Loss) for the period	<u>(221)</u>	<u>(139)</u>	-
	<u>\$ 32,148</u>	<u>\$ 19,569</u>	

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

**SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED**  
(A development stage company)

**Consolidated Statements of Cash Flows (Unaudited)**  
(Expressed in thousands of United States dollars)

	Three months ended		Cumulative from
	December 31,		inception on
	2001	2000	May 6, 1991
<b>Operating Activities</b>			
Net income (loss)	\$ (221)	\$ (139)	\$ (32,148)
Non-cash items			
Write-down of exploration properties	-	-	25,006
Amortization of capital assets	2	-	71
Gain on extinguishment of debt	-	-	(3,706)
Accretion of interest in debentures and notes payable and amortization of deferred debt expense included in other assets	89	89	1,339
Foreign exchange	(21)	9	(377)
Non-controlling subsidiary shareholder interest in consolidated loss	-	-	107
Non-cash employee share compensation	-	-	1,087
Non-cash non-employee share compensation	-	-	121
	<u>(151)</u>	<u>(41)</u>	<u>(8,500)</u>
Change in non-cash working capital relating to operations	<u>292</u>	<u>(277)</u>	<u>1,814</u>
	141	(318)	(6,686)
<b>Investing activities</b>			
Exploration properties	(138)	(3)	(42,185)
Fixed asset acquisitions	-	-	(121)
Other assets	-	-	(1,437)
	<u>(138)</u>	<u>(3)</u>	<u>(43,743)</u>
<b>Financing activities</b>			
Shares issued	-	315	45,440
Options exercised	-	-	16
Notes payable	-	-	2,012
Debentures	-	-	2,733
Deferred debt expense	-	-	(34)
Non-controlling subsidiary shareholder interest	3	-	(189)
Other share equity	-	-	465
	<u>3</u>	<u>315</u>	<u>50,443</u>
<b>Increase (decrease) in cash and case equivalents during the period</b>	6	(6)	14
<b>Net cash and cash equivalents-beginning of period</b>	<u>8</u>	<u>8</u>	<u>-</u>
<b>-end of period</b>	<u>\$ 14</u>	<u>\$ 2</u>	<u>\$ 14</u>

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

**SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED**  
**(A development stage company)**

**Consolidated Statements of Cash Flows (Unaudited)**

(Expressed in thousands of United States dollars)

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	Three months ended	
	December 31,	
	<u>2001</u>	<u>2000</u>
<b>Supplementary information</b>		
Non-cash transactions	-	-
Acquisition of exploration properties	-	-
Non-cash working capital	-	-
Increase in non-controlling subsidiary shareholders interest	-	-
Income taxes paid	-	-
Share capital	-	-
Debenture converted	-	(885)

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

**SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED**  
**(A development stage company)**

**Notes to Unaudited Consolidated Financial Statements**  
(Expressed in United States Dollars)

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's 2001 annual report.

**Nature of operations; going concern**

The consolidated financial statements have been prepared on the basis that contemplates the realization of assets and discharge of liabilities in the ordinary course of business into the foreseeable future. No adjustments to assets or liabilities have been made in the consolidated financial statements in the event that the Company is not able to continue normal business operations.

At December 31, 2001, the Company reported a deficit of approximately \$32.1 million and a working capital deficiency of approximately \$1.0 million. These conditions cast significant doubt as to the ability of the Company to continue in business and meet its obligations as they come due. Management is considering various alternatives, including a private placement, to raise capital in early 2002, but there is no assurance that these undertakings will be successful.

The Company's ability to continue as a going concern is dependent on its ability to generate sufficient funds through profitable operations, disposal of its assets or by obtaining alternative financing.

The Company is a Canadian corporation engaged in the acquisition, exploration and development of properties principally in Chile for the production of gold, copper and limestone. The Company is in the process of determining whether these properties contain ore reserves that are economically recoverable. All costs relating to the exploration and development of these properties are deferred. The recoverability of amounts shown for exploration properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the developments and upon future profitable production or proceeds from the disposition thereof.

**Related Party Transactions**

A company owned by an officer and shareholder of the Company was paid approximately \$9,000 and \$12,000 for the quarters ending December 31, 2001 and 2000, for the provision of office space and services to the Company.

Other current assets include advances to an officer of the Company of approximately \$28,000 and \$37,000 at December 31, 2001, and September 30, 2001, respectively.

Accounts payable and accrued liabilities include advances from certain officers and directors of the Company of approximately \$251,000 at December 31, 2001.



## **Capital Stock**

There were 160,296,768 shares outstanding at December 31, and September 30, 2001.

## **Subsequent Events**

On February 12, 2002, the Company sold the balance of a private placement totaling 24,000,000 units at Cdn \$0.04125 per unit, each unit comprised of one common share and one-half of one common share warrant. Each whole warrant entitles the holder thereof to subscribe to one additional common share at a price of Cdn \$0.055 per common share 24 months from the date of issuance. The first tranche of the private placement in the amount of 10,976,364 units was closed on February 1, 2002, and the second tranche of the private placement in the amount of 13,023,636 units was closed on February 12, 2002. Net proceeds of the aggregate placement were \$520,000, of which \$159,966 was assigned to the warrants and \$15,996 was assigned to a broker warrant. The values assigned to the warrants and to the broker warrant were based on a Black-Scholes model calculation.

On February 14, 2002, the Company received conditional approval from the Toronto Stock Exchange to issue up to 24,000,000 units at Cdn \$0.06 per unit, each unit comprised of one common share and a warrant for one-half of one common share. Each whole warrant will entitle the holder thereof to subscribe to one additional common share at a price of Cdn \$0.08 for 24 months from the date of issue. The issue of these units by the Company is subject to the shareholders' approval at the Company's Annual and Special Meeting of Shareholders on March 27, 2002, of a resolution authorizing the Company to amend and increase its authorized capital from 250,000,000 common shares to 500,000,000 common shares.

## Directors\* and Officers

### **Paul J. DesLauriers\***

Toronto, Canada  
Executive Vice President and Director  
Corporate Finance  
Loewen, Ondattje, McCutcheon & Company  
Limited, Toronto, Canada

### **John C. Duncan\*(1),(2)**

New York, New York  
*Chairman of the Board*  
Former Chairman, Cyprus Minerals Company;  
Former Chairman, President and CEO,  
St. Joe Minerals Company

### **Mario Hernandez A.\***

Santiago, Chile  
*Executive Vice President and Director, Claims and  
Land Management*

### **Stephen W. Houghton\***

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

### **Jay C. Kellerman**

Toronto, Ontario, Canada  
*Secretary*  
Stikeman Elliott

### **William C. O'Donnell**

New York, New York  
*Executive Vice President and Chief Financial Officer*  
Former Vice President and CFO,  
St. Joe Minerals Company

### **Frederick D. Seeley\*(1),(2)**

New York, New York  
Chairman, Givens Hall Bank and Trust Limited,  
Cayman Islands, BWI

### **David R. S. Thomson\***

Santiago, Chile  
*Executive Vice President and Director of Exploration*

(1) Member, Audit Committee

(2) Member, Compensation Committee

## Corporate Information

### **Toronto Stock Exchange**

Stock Symbol: SAG

Solicitors:

#### **Stewart McKelvey Stirling Scales**

Halifax, Nova Scotia, Canada

#### **Stikeman Elliott**

Toronto, Ontario, Canada

### **Registered Office:**

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### **Computershare Investor Services**

Stock Registrar and Transfer Agent

Auditors:

#### **PricewaterhouseCoopers LLP**

Toronto, Ontario, Canada

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