

SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

**Report to Shareholders
For the
First Quarter Ending
December 31, 2004**

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

**The financial statements for the quarter ended December 31, 2004 have not been reviewed
by the Company's auditors.**

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

The following discussion provides information which management believes is relevant to an assessment and understanding of the financial condition and results of operation of South American Gold and Copper Company Limited and its consolidated subsidiaries (SAGC or the Company) and should be read in conjunction with the consolidated financial statements and related notes thereto and the management's discussion and analysis of financial conditions and results of operations for the two years ended September 30, 2004, which appear in the Company's 2004 annual report. All amounts stated herein are in US dollars, unless otherwise noted.

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 and are amortized into operations using the unit-of-production method over the estimated useful lives of the related ore reserves. 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 estimated future net cash flows.

This discussion addresses matters which the Company believes are important for an understanding of its financial condition and result of operation as of and for the three months ending December 31, 2004 and 2003 and for its future prospects.

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. The Company is also engaged in the exploration for and acquisition of gold and other mineral properties. The Company's principal exploration activities are being focused on a potential porphyry copper deposit located within the Pimenton area on which the Company holds mining claims. The Company also holds interests in two limestone deposits.

Results of Operations

The Company incurred a loss of \$1,068,000 and a gain of \$332,000 for the quarters ended December 31, 2004 and 2003, respectively.

Revenue from gold was \$601,000 and from silver and copper was \$103,000 with related operating expenses of \$937,000. For the three months ended December 31, 2004 the mine operated at a loss which was caused in part by modifications to the plant at Pimenton to increase its operating capacity from 140 tonnes to 300 tonnes per day and a change in the mining method which required an investment in time to retrain miners in the new mining and safety procedures but is expected to increase the head grade of ore into the plant. These changes should have a beneficial affect on future operational profitability. The entire mine's production is sold to ENAMI, a subsidiary of CODELCO, the state owned mining company. ENAMI was created to promote the growth of small and medium size mining companies and is mandated to accept the production of these companies.

Amortization expense increased by \$514,000 due to the start of commercial production at Pimenton. Prior to commercial production amortization expense, except for amortization on office furniture and equipment, was capitalized as development costs. Upon reaching commercial production, these capitalized costs were transferred from exploration properties to mining properties, plant and equipment and are amortized into operations using the unit-of-production method (UOP) over the estimated useful lives of the related ore reserves.

General and administrative expenses increase by \$148,000 due to higher overhead expenses in Santiago relating to the start-up of commercial production at Pimenton.

Stock based compensation represents the fair value of 2,000,000 stock options issued to an officer of the Company. The stock options were assigned a fair value of \$50,000 using the Black-Scholes valuation model assuming a risk free rate of 3.89% and a volatility factor of 30%.

Interest expense decreased \$12,000 due to the conversion of a note before it was fully accreted to its face value resulting in a higher interest charge for the quarter ended December 31, 2003.

For the quarter ended December 31, 2003, administrative expenses increased by \$15,000 primarily due to an information program aimed at increasing investor and shareholder knowledge of the Company's activities. The foreign exchange gain is the result of strong Canadian and Chilean currencies versus the US dollar, Company's reporting currency. Interest expense increased due to the conversion of a promissory note into common shares of the Company before it was fully accreted to its face value resulting in a charge of \$78,000 to interest expense. The promissory note had a maturity date of December 31, 2004 and Can. \$557,233 was converted into common shares of the Company during the quarter ended December 31, 2003. The remaining outstanding balance of Can. \$34,791 was converted into common shares of the Company during January 2004.

On December 29, 2003, as a result the issuance of the OPIC loan agreement, the Pimenton note holders agreed to an additional extension of the due date of the Pimenton notes until one year after the OPIC notes are repaid. The notes were revalued and recorded at their fair values of \$976,187. The fair value of the notes was determined using a quarterly risk rate of return of 5%. This refinancing resulted in a gain of \$542,805.

Liquidity and Capital Resources

Unrestricted cash was \$674,000 at December 31, 2004.

On October 21, the Company sold through a private placement 40,000,000 units at Can. \$0.07 per unit, each unit comprised of one common share and one half of one common share purchase warrant to purchase a further common share at Can. \$0.09 per share at any time within 24 months of the date of issue. In addition, 3,000,000 common shares were sold at Can. \$0.07 per share of which 1,847,000 shares was purchased by an officer and director. In connection with this private placement, the Company also issued 4,300,000 brokers warrants, each exercisable at Can. \$0.07 per share, expiring 48 months from the date of issue. Net proceeds of the placement were \$2,158,541 of which \$276,806 was assigned to warrants and \$123,131 assigned to the broker warrants, using the Black-Scholes valuation model assuming risk-free rates of 2.96% and 3.62%, respectively, and a volatility factor of 30%.

Restricted cash was \$1,177,000 at December 31,2003.

Under the terms of the loan agreement with OPIC, the Company is required, among other things, to establish an equity reserve account in lieu of a construction and completion bond and a debt service reserve account. Accordingly, cash in the amount of \$1,177,000 has been designated as restricted on the accompanying balance sheet

Risks

The Company operates in an international environment and as such is subject to political and currency risk. The Company's business is very dependent on the price of gold which is subject to fluctuation by factors the Company's 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.

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.

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

Certain information included in this report may be "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the outlook, the actual results or performance of the Company to be materially different from any future results or performance implied by such statements.

South American Gold and Copper Company Limited
Consolidated Balance Sheets

(expressed in thousands of U.S. dollars)

	December 31, 2004 (Unaudited) \$	September 30, 2004 \$
Assets		
Current assets		
Cash and cash equivalents	674	226
Restricted cash	429	429
Receivables-		
Trade	112	168
Sundry	580	376
Taxes	1,896	1,718
Inventory	250	118
	<u>3,941</u>	<u>3,035</u>
Equipment	35	-
Mineral properties, plant and equipment	14,214	14,664
Exploration properties	5,019	5,019
Restricted cash	754	754
Deferred debt expense	375	389
	<u>24,338</u>	<u>23,861</u>
Total assets		
Liabilities		
Current liabilities		
Current portion of long term debt	723	691
Accounts payable and accrued liabilities	821	1,206
Other	893	828
	<u>2,437</u>	<u>2,725</u>
Long term debt	3,005	3,333
Future income tax liability	980	980
Reclamation and remediation provision	706	706
Non-controlling shareholders' interest in consolidated subsidiary	154	154
	<u>7,282</u>	<u>7,898</u>
Total liabilities		
Shareholders' Equity		
Share capital	59,296	57,536
Contributed surplus	327	316
Options	190	192
Warrants	1,207	815
Deficit	(43,964)	(42,896)
	<u>17,056</u>	<u>15,963</u>
Total shareholders' equity		
	<u>24,338</u>	<u>23,861</u>
Total liabilities and shareholders' equity		

Nature of operations and going concern (note 1)

Commitments and contingencies

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

Approved by the Board of Directors

Sgd. "Paul J. DesLauriers"
Paul J. DesLauriers
Chairman

Sgd. "Stephen W. Houghton"
Stephen W, Houghton
Director

South American Gold and Copper Company Limited
Consolidated Statements of Operations and Deficit

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

	Three Months Ended	
	December 31,	
	2004	2003
		(Restated)
	\$	\$
Revenue		
Gold	601	-
Copper and silver	103	-
	<u>704</u>	<u>-</u>
Expenses		
Operating costs	937	-
Amortization	514	-
General and administrative	270	122
Stock based compensation	50	
Foreign exchange	(150)	(74)
Interest	151	163
	<u>1,772</u>	<u>211</u>
Gain on refinancing	-	(543)
(Loss) gain for period	<u>(1,068)</u>	<u>332</u>
Deficit-beginning of period	(42,896)	(36,985)
Deficit-end of period	<u>(43,964)</u>	<u>(36,653)</u>
Basic and diluted loss per share	<u>-</u>	<u>-</u>

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

South American Gold and Copper Company Limited
Consolidated Statements of Cash Flows

(expressed in thousands of U.S. dollars)

	Three months ended	
	December 31,	
	2004	2003
	\$	\$
Cash provided by and (used in)		
Operating activities		
(Loss) gain for the period	(1,068)	332
Non cash items		
Writedown of exploration properties	-	-
Amortization of equipment	514	4
Gain on revaluation of debt	-	(543)
Accretion of interest on debentures and notes payable and amortization of deferred debt expense included in other assets	55	134
Foreign exchange	(150)	(50)
Non-controlling shareholders' interest in consolidated subsidiary's loss		
Non-cash employee share compensation	50	-
Non-cash non-employee share compensation	-	-
Non-cash employee options	-	-
Non-cash non-employee warrants	-	-
	(599)	(123)
Change in non-cash working capital relating to operations	(507)	(758)
	(1,106)	(881)
Investing activities		
Mining equipment	(328)	(679)
Mineral properties	-	-
Development cost	-	-
Exploration properties	-	-
Other assets	-	(17)
Restricted cash	-	(750)
	(328)	(1,446)
Financing activities		
Shares issued	2,159	4,479
Options exercised	-	-
OPIC notes	-	-
Deferred debt expense	-	-
Capital leases	-	-
Repayment debt	(311)	-
	1,848	4,479
Effect of foreign exchange on cash held in foreign currency	34	24
Increase (decrease) in cash and cash equivalents during the period	448	2,176
Cash and cash equivalents - Beginning of period	226	112
Cash and cash equivalents - End of period	674	2,288
Supplemental cash flow information		

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

SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

**Notes to the Consolidated Financial Statements
December 31, 2004 and 2003
(Expressed in United States dollars)
(All tabular amounts are expressed in thousands
except number of shares.)**

1. Basis of Presentation

The interim consolidated financial statements of South American Gold and Copper Company Limited (the "Company" or "SAGC") have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) following the same accounting policies and methods as the consolidated financial statements for the fiscal year ended September 30, 2004. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's 2004 annual report.

2. Nature of operations

The Company is a Canadian corporation, listed on the Toronto Stock Exchange (TSX). On July 1, 2004, the Company commenced commercial production at its Pimenton gold mine in Chile. The Company's principal exploration activities are being focused on a potential porphyry copper deposit located within the Pimenton area on which the Company holds mining claims. The Company also holds interests in two limestone deposits.

3. Going concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and discharge of obligations in the normal course of business as they come due. No adjustments have been made to assets or liabilities in these consolidated financial statements should the Company not be able to continue normal business operations.

As at December 31, 2004, the Company reported a deficit of approximately \$44.0 million. This condition casts significant concern as to the ability of the Company to continue in business and meet its obligations as they come due. The Company's continuance as a going concern is dependent on profitable operations at its Pimenton gold mine. In the event the Pimenton does not generate sufficient cash, the assets may not be realized and the liabilities discharged at their carrying amounts, and these differences could be material.

4. Related party transactions

A company owned by an officer, director and shareholder of the Company was paid approximately \$19,000 and \$24,000 for the periods ending December 31, 2004 and 2003, respectively, for the provision of office space and services to the Company.

A law firm, of which an officer is a member, was paid approximately \$32,000 and \$77,000 during the periods ending December 31, 2004 and 2003, respectively, for the provision of legal services. These services were provided at rates similar to those charged to non-related parties.

Other current assets include advances to an officer and director of the Company of \$296,000 and \$252,000, as at December 31, 2004 and September 30, 2004, respectively.

An officer of the Company was paid \$49,000 and \$11,000 for the periods ending December 31, 2004 and 2003, respectively, for accounting services rendered to the Company.

Two officers and directors of the Company hold the minority interest in CM Cathedral, a subsidiary of the Company.

5. Share Capital

	<u>Shares Issued</u>	<u>Amount</u>
September 30, 2004	389,642,949	\$57,536
Share issuance(a)	43,000,000	1,760
December 31, 2004	432,642,949	\$59,296

(a) On October 21, the Company sold through a private placement 40,000,000 units at Cdn. \$0.07 per unit, each unit comprised of one common share and one half of one common share purchase warrant to purchase a further common share at Cdn. \$0.09 per share at any time within 24 months of the date of issue. In addition, 3,000,000 common shares were sold at Cdn. \$0.07 per share of which 1,847,000 shares were purchased by an officer and director. In connection with this private placement, the Company also issued 4,300,000 brokers warrants, each exercisable at Cdn. \$0.07 per share, expiring 48 months from the date of issue. Net proceeds of the placement were \$2,158,541 of which \$276,806 was assigned to warrants and \$123,131 assigned to the broker warrants, using the Black-Scholes valuation model assuming a risk-free rates of 2.96% and 3.62%, respectively, and a volatility factor of 30%.

6. Restatement.

A significant fourth adjustment for fiscal 2004 was the reduction in the fair value assigned to the Pimenton notes. On December 29, 2003, the note holders agreed to extend the due date of their notes to one year beyond the due date of the OPIC loan and at that date should have been revalued from \$1,518,992 to \$976,187 resulting in a gain on refinancing of \$542,805. The adjustment has been reflected in the results of operations for the quarter ended December 31, 2003.

Directors* and Officers

Paul J. DesLauriers*(1),(2)

Chairman of the Board
Toronto, Canada
Executive Vice President and Director
Loewen, Ondaatje, McCutcheon & Company
Limited, Toronto, Canada

William C. O'Donnell

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

Mario Hernandez A.*

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

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

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

Stephen W. Houghton*

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

David R. S. Thomson*

Santiago, Chile
Executive Vice President and Director of Exploration

Jay C. Kellerman

Toronto, Ontario, Canada
Secretary
Stikeman Elliott

Hector Araya

Santiago, Chile
Vice President

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

Corporate Information

Toronto Stock Exchange

Stock Symbol: SAG

Computershare Investor Services

Stock Registrar and Transfer Agent

Registered Office:

Suite 800, Purdy's Wharf
1659 Upper Water Street, Tower One
Halifax, Nova Scotia B3J 2X2, Canada
Telephone: (902) 420-3200

Business Office

67 Yonge Street, Suite 1201
Toronto, Ontario M5E 1J8, Canada
Telephone: (416) 369-9359
website: www.sagc.com

New York Representative Office:

420 Madison Avenue, Suite 901
New York, NY 10017-1107
Telephone: (212) 571-0083

Exploration and Development Office:

La Concepcion 266, Of. 704
Providencia, Santiago, Chile
Telephone: 56-2-264-2295