SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

Report to Shareholders
For the
First Quarter Ending
December 31, 2008
(These statements have not been audited)

Listed on the Toronto Stock Exchange
Symbol: SAG

The financial statements for the quarter and three months ended December 31, 2008 and December 31, 2007 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 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 quarters ended December 31, 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 February 12, 2009. 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, 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 February 12, 2009, the Company has issued one class of common shares and has a total of 747,937,339 common shares outstanding. The Company has 164,928,606 common share purchase warrants outstanding, each of which is exercisable for one common share at exercise prices of CA$0.025 to CA$0.25 through December 18, 2010. Share options outstanding as of February 13, 2009, 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 three months ended December 31, 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 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, the Company has 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. In addition the Company wrote down $9,152 for the three month period ended December 31, 2008.

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 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. 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 321,000 tons of drill indicated resources as defined in the Company's December 31, 2008 resources and reserve report which was done in compliance with NI 43-101 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. Anglo completed this drill program. In October 2007, during its join venture discussions, 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 a cumulative of $100,000 which was due in December 2008 and will pay, $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 paid $100,000 in December 2008, and will pay $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.

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.

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 further exploration at Bandurrias 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 a cumulative of $100,000 which was due in December 2008, and will pay $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 paid $100,000 in December 2008, and will pay $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.

As of December 31, 2008, the Company it wrote off an additional $9,152 relating to exploration costs on the La Bella in line with its policy of writing off explorations expenditures until a resource potential in accordance with NI 43-101 has been established.

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 December 31, 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 December 31, 2008, the Company had contributed $1,534,000 (2007 - $1,486,000) to finance a bankable feasibility study on the project and for environmental permitting and further mine development on Cal Norte. Although the Company has incurred sufficient explorations expenditures to maintain the Cal Norte property in good standing, the Company wrote off the balance of $1,534,013 in mining properties and exploration costs 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.

Results

2009

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.

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.

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. In addition write downs of $9,152 were incurred on the La Bella in the first quarter ended December 31, 2008.

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:

The Company has compiled, with an independent qualified person under Canadian Instrument 43-101, a Mineral Reserve and Mineral Recourses estimate of the Pimenton mine on December 31, 2008, 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 December 31, 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.

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 assessed the impact of these new accounting standards on its consolidated financial statements. The Company has determined that deferred charges meet the criteria for deferral with the adoption of CICA Handbook Section 3064 for the fiscal year beginning October 1, 2008.

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.

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.

Results of operations for the quarter ended December 31, 2008, compared to the quarter ended December 31, 2007

The Company incurred losses of $401,000 and $391,000 for the three month ended December 31, 2008 and 2007, respectively.

Revenue from gold was $1,644,508 and from silver and copper was $159,635 with related operating expenses of $1,073,260. 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 $350,000. In addition the Company has committed to purchase two snow cats estimated to cost $600,000. The Company also intents to install a system to convert the Knelson Concentrate the mine is currently producing into gold dore bars estimated to cost $150,000. This purchase would facilitate operations in the future. These capital expenditures total $1,100,000. 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 approximately for 60% 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 initial payment. As the Company increases the production to 200 tons per day this one to two months delay in receipt of the balance of the 40% 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 60% of the gold value produced by the mine can be either helicoptered, or taken out of the mine by the snow cats described above.

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.

Operating cost were $1,073,260 in the three months ended December 31, 2008 compared to nil for the same period in 2007. This increase was due to start-up of operations at the Pimenton Gold mine during the three month period ended December 31, 2008 consisting of: mine expenses $276,706; plant operations $195,901; maintenance and operations road $166,260; royalties $114,813; smelting, refining and metallurgical charges $99,031; management $22,157 camp $139,041; health clinic & safety $39,822; transportations concentrate $15,442; others operational costs $4,087.

Amortization expenses were $145,000 in the three months ended December 31, 2008, due to the start of commercial production at Pimenton on October 1, 2008. Prior to commercial production amortization expense, except for depreciation on office furniture and equipment, was capitalized as development costs in 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. Depreciations expenses in the three months ended December 31, 2008 were $177,000 compared to $148,000 for the same period in 2007. The increase was due to mining equipment purchases.

Temporary mine shut down costs were $nil in the three months ended December 31, 2008 compared to $54,000 for the same period in 2007. The reduction of $54,000 was due to the mine start up activities which were recommenced during the three month ended December 31, 2008.

General and Administrative costs in the three months ended December 31, 2008 were $257,994 compared to $327,385 for the same period in 2007. The decrease was due to an increase in salaries of $13,644, transport of $15,548, and miscellaneous and other expenses of $11,055. This was offset by a reduction in: (i) professional fees of $82,080 which included accounting fees of $57,381, legal fees of $16,970 and others professional fees of $7,729 (ii) taxes and penalties by $9,055 (iii) utilities by $18,503.

Stock based compensation was $50,714 during the three month period ended December 31, 2008 compared to $ nil 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 $4,882,42, using the Black-Scholes valuation model, assuming a risk-free rate of 3.04% for the period of three month ended December 31, 2008 of vesting period. 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 $45,832, 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, for the period of three month ended December 31, 2008 of vesting period.

The foreign exchange loss was $238,000 for the three month ended December 31, 2008. The loss was due to recoverable taxes which are in Chilean pesos. During the quarter the increment in the value of the US dollar verses the Chilean pesos resulted in a loss of $352,986, other exchange loss amounted to $12,282. This was offset by foreign exchange gain on account payables and provisions totaling $127,205. The foreign exchange gain was $ 345,000 for the same period ended December 31, 2007. Recoverable taxes are in Chilean pesos during the quarter the decrease in the value of the US dollar verses the Chilean peso resulted in a gain of $107,000. 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 $5,000.

The estimated cash flow in reclamation and remediation of $3,825,000 is expected to be incurred over a period extending to ten years calculated at the present value on December 31, 2008. This estimated cash flow is discounted using a credit –adjusted risk-free rate of 7.5%. Reclamation and remediation discounted at 7.5% for the three month period ended December 31, 2008 was $33,859.

Exploration and mining properties were written-off during the three months ended December 31, 2008 totaling $9,153 for la Bella project. 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.

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. The Company has plans to gradually increase production to 150 tons per day in the next twelve months with further increases to 200 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 321,000 tons of drill indicated resources into the proven and probable reserves resources as defined in the Company's December 31, 2008 resources and reserve report which was done in compliance with NI 43-101and 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 $810,000.

At December 31, 2008, cash was $438,000 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 December 31, 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 deficit at December 31, 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.

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 a cumulative of $100,000 which was due in December 2008, and will pay $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 paid $100,000 in December 2008, and will pay $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.

Cal Norte

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

Related party transactions

A company owned by chief executive officer, who is also a director, billed the Company $22,518 in the period ended December 31, 2008 for the provision of office space and services used by the Company.

Receivable from an officer and director of $133,402 for the three month ended December 31, 2008 (December 31, 2007 - $152,978) 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 former 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 $12,500 per month until the net balance of $59,910 as of December 31, 2008 has been paid which includes a consultancy fee remaining to be paid to Mr. O'Donnell in the amount of $7,525. The Chief Financial Officer billed $nil for accounting services rendered to the Company for the three month period ended December 3, 2008 (December 31, 2007- $61,830).

A company controlled by the current Chief Financial Officer billed the Company $22,172 for accounting and administration services rendered in the period of three month ended December 31, 2008 (December 31, 2007 - $5,004). Amounts due to related parties include payables to this officer of $13,488 for such services at December 31, 2008 (December 31, 2007 - $708).

On December 12, 2008, the Company sold through a private placement 19,408,620 units at CA$0.025 per unit, consisting of one common share and one half common share purchase warrant to purchase a further common share at CA$0.045 per share at any time within 24 months of the date of issue, of which 4,285,020 shares were issued to a director who is also an officer of the Company in payment of cash advance of $85,000 at November 2008, plus purchase warrants to purchase up to 2,145,510. 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 CA$0.025 per share.

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 $896,732 at December 31, 2008 (December 31, 2007 - $815,317) and interest expense was $12,287 for three month period ended December 31, 2008 and 2007. Amounts due to related parties include $207,525 (2007- $158,645) for interest and $159,052 for royalties as at December 31, 2008 (December 31, 2007 - $91,802).

Amounts due to related parties include $206,134 and $158,645 as at December 31, 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 $891,011 and $810,115 as at December 31, 2008 and 2007, respectively. In addition, amounts due to related parties include $159,052 and $91,802 as at December 31, 2008 and December 31, 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, 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 of Claims and Land Management, who is also a Director of the Company, subscribed and paid for 31,360,000 units. 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 $74,420 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 2.80%, no dividend and a volatility factor of 50%.

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. 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 $24,409 and $29,158 for the periods ended December 31, 2008 and December 31, 2007, respectively. Amounts due to related parties include payables to these officers of $60,361 and $88,159 as at December 31, 2008 and December 31, 2007, respectively, for interest on such debentures.

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 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 compiled, with an independent qualified person under Canadian Instrument 43-101, a Mineral Reserve and Mineral Recourses estimate of the Pimenton mine on December 31, 2008. This report is filed as an exhibit to the Company's Annual Information Form which is available on SEDAR at www.sedar.com.

The Company declared the mine to be in commercial production effective October 1, 2008 at the rate of 91 tons per day of production. This production rate will be gradually increased to 200 tons per day over the next 18 months 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, 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 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 Balance Sheets

(expressed in thousands of U.S. dollars)

	December 31, 2008 (Unaudited)	September 30, 2008
	$	**$**
Assets		
Current assets		
Cash and cash equivalents	438	153
Restricted cash	22	22
Receivable fron an officer and director	12	14
Receivables	606	110
Recoverable taxes	1.719	2.131
Product and supplies, inventory	320	396
	3.117	2.826
Receivable from an officer and director	134	153
Mining properties, plant and equipment	16.368	16.603
Exploration properties	486	335
Recoverable taxes	707	814
Total assets	20.812	20.731
Liabilities		
Current liabilities		
Short term lease	23	25
Current portion of long-term debt	1.567	1.560
Accounts payable and accrued liabilities	1.040	1.052
Taxes payable (IVA)	445	490
Amounts due to related parties	852	801
	3.927	3.928
Long-term debt	2.680	2.610
Long-term lease	39	50
Long-term amount due to related parties	181	236
Reclamation and remediation	1.890	1.856
Non-controlling interest in consolidated subsidiary	-	-
Total liabilities	8.717	8.680
Shareholders' equity		
Share capital	69.529	69.255
Contributed surplus	2.580	2.580
Convertible subordinated debentures	940	907
Options	1.468	1.418
Warrants	1.804	1.716
Deficit and comprehensive loss	(64.226)	(63.825)
Total shareholders' equity	12.095	12.051
Total liabilities and shareholders' equity	20.812	20.731

Going concern and nature of operations (note 1)

Commitments (note 11)

Approved by the Board of Directors

Paul J. DesLauriers ___________________ **Stephen W. Houghton** ___________________________
Chairman 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 (Unaudited)

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

	Three Months Ended December 31, 2008	2007
	$	**$**
Revenue		
Gold	1.665	-
Copper and silver	159	-
	1.824	-
Expenses		
Operating cost	1.073	-
Amortization and depreciation	322	148
Temporary mine shutdown	-	54
General, sales and administrative	258	327
Stock-based compensation	51	-
Warrant revaluation	-	11
Foreign exchange	238	(345)
Interest	245	207
	2.187	402
Other income	(5)	(11)
Reclamation and remediation	34	-
Writte off of explorations properties	9	-
Loss and comprehensive loss for period	(401)	(391)
Deficit- beginning of period	(63.825)	(55.255)
Deficit- end of period	(64.226)	(55.646)
Basic and diluted loss per share	-	-

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

SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of U.S. dollars)	Three monts ended December 31, 2008 $	2007 $
Cash provided by (used in)		
Operating activities		
Loss for the period	(401)	(391)
Non cash items		
Amortization and depreciation	322	148
Accretion of interest on long-term debt	200	90
Foreign exchange loss (gain)	238	(345)
Non-controlling interest in consolidated subsidiary's loss	(23)	-
Taxes and penalty	17	-
Write-off of exploration properties	9	-
Mine clousere	34	-
Provision and withholding	166	-
Royalties	115	-
Non-cash non-employee share compensation	41	-
Non-cash employee options	51	-
Non-cash warrant revaluation	-	11
	769	(487)
Change in non-cash working capital relating to operations	(566)	(38)
	-	-
	203	(525)
Investing activities		
Additions to mining equipment	(65)	(126)
Mine development and mining properties capitalized	(184)	(145)
Receivable from an officer and director	(31)	(133)
	(280)	(404)
Financing activities		
Shares issued	361	3.430
Warrants exercised	-	390
Repayment of capital leases	(7)	-
	354	3.820
Effect of foreign exchange on cash held in foreign currency	8	232
Increase in cash and cash equivalents during the period	285	3.123
Cash and cash equivalents - Beginning of period	153	344
Cash and cash equivalents - End of period	438	3.467

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

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

1. Going Concern and Nature of Operations

The management of South American Gold and Copper Company Limited (the "Company" or "SAGC") have prepared these unaudited consolidated financial statements for the three months ended December 31, 2008 in accordance with Canadian generally accepted accounting principles (GAAP).

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 December 31, 2008, the Company reported a deficit of approximately $64 million and a working capital deficiency of approximately $810,000. In addition, at December 31, 2008, the Company was in breach of several lending covenants, 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. The Company also holds interests in two 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.

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

2. Basis of Consolidation and Presentation of Interim Financial Statements

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian GAAP following the same accounting policies and methods as the consolidated financial statements for the fiscal year ended September 30, 2008. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these consolidated financial statements. The disclosure in these interim consolidated financial statements may not conform in all respects to Canadian GAAP for annual consolidated financial statements and as such should be read in conjunction with the Company's most recent annual consolidated financial statements, being those for the year ended September 30, 2008.

3. Significant Accounting Policies

These interim consolidated financial statements follow the same accounting policies and methods of their application as the Company's most recent annual consolidated financial statements, except with respect to the following new and revised accounting standards which the Company is required to adopt under Canadian GAAP for interim and annual financial statements relating to its fiscal year commencing October 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 currently assessed the impact of these new accounting standards on its consolidated financial statements. The Company has determined that deferred charges meet the criteria for deferral with the adoption of CICA Handbook Section 3064 for the fiscal year beginning October 1, 2008.

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.

The Company values its concentrate inventories at the lower of cost or net realizable value at the end of the reporting period. Net realizable value includes metal prices, net of treatment charges and freight. Metal prices can be subject to significant change from period to period.

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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 and Equity

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 three months ended December 31, 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 December 31, 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.

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4. Future Changes in Accounting Policies

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.

5. 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.

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 Corporation 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 Corporation's earnings, financial requirements and other conditions existing at such future time.

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

6. Share Capital

	Number of shares	Amount $
Outstanding – September 30, 2008	728,528,719	69,255
Private placement (i)	19,048,620	274
Outstanding – December 31, 2008	747,937,339	69,529

i.) On December 12, 2008, the Company sold through a private placement 19,408,620 units at CA$0.025 per unit, consisting of one common share and one half common share purchase warrant to purchase a further common share at CA$0.045 per share at any time within 24 months of the date of issue. 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 CA$0.025 per share. Net proceeds of the placement were $362,733, of which $88,345 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 2.8%, no dividend and a volatility factor of 100%.

7. 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 December 31, 2008, the Company's deficit was $64 million and a working capital deficiency of approximately $810,000, At December 31, 2008, cash was $438,000 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.

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

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.

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.

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

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, 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 December 31, 2008, both the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

The Company believes the following movements are "reasonably possible" over a three-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.

8. Recoverable Taxes

Recoverable taxes in the amount of $372,000 as at December 31, 2008 (September 30, 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 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.

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

9. Long-term Debt

Due to events at the mine 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.

10. Warrants

	2008	
	Number of warrants	$
Balance - September 30, 2008	173,423,02	1,716
Issued (note 6(i))	10,914,1	88
Balance - December 31, 2008	184,337,22	1,804

11. Commitments

a) Project Commitments

Project	Description	Total potential commitment $	Paid to date $
Catedral and Rino	A loan for development costs	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.		125

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

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 was paid 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. On the outer circle the Company paid $100,000 in December 2008, and the Company has an obligation to pay $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	200
Cal Norte	Capital contribution of $1,800,000 to earn 60% equity interest	1,800	1,406

b) Lease Commitments

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

Month ending	December 31,
	$
2009	158,342
2010	158,342
2011	75,331
	392,015
Interest	**(38,890)**
	353,125

From the total capital lease obligation held by the Company at December 31, 2008, $291,988 is due to related parties and has been allocated: $111,268 in the short-term portion and $180,720 in the long-term amounts due to related parties.

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

12. Related Party Transactions

A company owned by chief executive officer, who is also a director, billed the Company $22,518 in the period ended December 31, 2008 for the provision of office space and services used by the Company.

Receivable from an officer and director of $133,402 for the three month ended December 31, 2008 (December 31, 2007 - $152,978) 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 former 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 $12,500 per month until the net balance of $52,260 as of December 31, 2008 has been paid. The Chief Financial Officer billed $nil for accounting services rendered to the Company for the three month period ended December 31, 2008 (December 31, 2007- $61,830).

A company controlled by the current Chief Financial Officer billed the Company $22,172 for accounting and administration services rendered in the period of three month ended December 31, 2008 (December 31, 2007 - $5,004). Amounts due to related parties include payables to this officer of $13,488 for such services at December 31, 2008 (December 31, 2007 - $708).

On December 12, 2008, the Company sold through a private placement 19,408,620 units at CA$0.025 per unit, consisting of one common share and one half common share purchase warrant to purchase a further common share at CA$0.045 per share at any time within 24 months of the date of issue, of which 4,285,020 shares were issued to a director who is also an officer of the Company in payment of cash advance of $85,000 at November 2008, plus purchase warrants to purchase up to 2,145,510. In addition the placement agent received 1,209,888 common stock purchase warrants exercisable for 24 months from the date of issuance at CA$0.025 per share.

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 $896,732 at December 31, 2008 (December 31, 2007 - $815,317) and interest expense was $12,287 for three month period ended December 31, 2008 and 2007. Amounts due to related parties include $207,525 (2007- $158,645) for interest and $159,052 for royalties as at December 31, 2008 (December 31, 2007 - $91,802).

Amounts due to related parties include $206,134 and $158,645 as at December 31, 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 $891,011 and $810,115 as at December 31, 2008 and 2007, respectively. In addition, amounts due to related parties include $159,052 and

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$91,802 as at December 31, 2008 and December 31, 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, 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 of Claims and Land Management, who is also a Director of the Company, subscribed and paid for 31,360,000 units. 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 $74,420 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 2.80%, no dividend and a volatility factor of 50%.

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. 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

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

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 \$24,409 and \$29,158 for the periods ended December 31, 2008 and December 31, 2007, respectively. Amounts due to related parties include payables to these officers of \$60,361 and \$88,159 as at December 31, 2008 and December 31, 2007, respectively, for interest on such debentures.

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 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.

13. Short-term Borrowings

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

14. Comparative Amounts

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

15. 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

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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.

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

Registered Office:
Toronto Dominion Centre
Canadian Pacific Tower
100 Wellington Street West
P O Box 128, Suite 500
Toronto, ON M5K 1H1

Business Office
1201-67 Yonge Street
Toronto, Ontario M5E 1J8, Canada

New York Representative Office:
420 Madison Avenue, Suite 905
New York, NY 10017-1193
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

FORM 52-109F2

CERTIFICATION OF INTERIM FILINGS

FULL CERTIFICATE

I, Stephen W. Houghton, Chief Executive Officer of South American Gold and Copper Company Limited, certify the following:

1. ***Review:*** I have reviewed the interim financial statements and interim MD&A (together, the "interim filings") of South American Gold and Copper Company Limited (the "issuer") for the interim period ended December 31, 2008.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

4. ***Responsibility:*** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. ***Design:*** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by the interim filings

(a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

(i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and

(ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1 ***Control framework:*** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is Internal Control over Financial Reporting-Guidance for Smaller Public Companies.

5.2 N/A

5.3 N/A

6. ***Reporting changes in ICFR:*** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2008 and ended on December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: February 12, 2008

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

FORM 52-109F2

CERTIFICATION OF INTERIM FILINGS

FULL CERTIFICATE

I, Peter W. Hogg, Chief Financial Officer of South American Gold and Copper Company Limited, certify the following:

1. ***Review:*** I have reviewed the interim financial statements and interim MD&A (together, the "interim filings") of South American Gold and Copper Company Limited (the "issuer") for the interim period ended December 31, 2008.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

4. ***Responsibility:*** The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. ***Design:*** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer(s) and I have, as at the end of the period covered by the interim filings

(a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

(i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and

(ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1 ***Control framework:*** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is Internal Control over Financial Reporting-Guidance for Smaller Public Companies.

5.2 N/A

5.3 N/A

6. ***Reporting changes in ICFR:*** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2008 and ended on December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: February 12, 2009

"Peter W. Hogg"
Peter W. Hogg
Chief Financial Officer