

SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

**Report to Shareholders
For the
Second Quarter Ended
March 31, 2005**

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

**The financial statements for the quarter ended March 31, 2005 have not been reviewed by
the Company's auditors.**

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

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

Acquisition costs of resource properties, together with direct exploration and development expenses incurred thereon, are deferred and capitalized in the accounts. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to mining properties, plant and equipment and are amortized into operations using the unit-of-production method over the estimated useful lives of the related ore reserves. Management regularly reviews the carrying value of each mineral property using estimated undiscounted cash flows from each project. When review suggests impairment, the carrying value of the project would be reduced to the extent it exceeded the estimated future net cash flows.

This discussion addresses matters which the Company believes are important for an understanding of its financial condition and result of operation as of and for the periods ending March 31, 2005 and 2004 and for its future prospects.

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

Results of Operations

Three months ended March 31, 2005 and 2004

The Company incurred losses of \$1,794,000 and \$521,000 for the quarters ended March 31, 2005 and 2004, respectively.

Revenue from gold was \$669,000 and from silver and copper was \$178,000 with related operating expenses of \$937,000. For the three months ended March 31, 2005 the mine

operated at a loss which was expected because of modifications to the plant at Pimenton to increase its operating capacity from 140 tonnes to 300 tonnes per day and a change in the mining method to increase the head grade of ore into the plant. Anticipated benefits from these changes were not realized during the quarter but the Company believes such changes will have a beneficial effect on future operations. The entire mine's production is sold to ENAMI, a subsidiary of CODELCO, the state owned mining company. ENAMI was created to promote the growth of small and medium size mining companies and is mandated to accept the production of these companies.

Amortization expense increased by \$713,000 due to the start of commercial production at Pimenton. Prior to commercial production amortization expense, except for amortization on office furniture and equipment, was capitalized as development costs. Upon reaching commercial production, these capitalized costs were transferred from exploration properties to mining properties, plant and equipment and are amortized into operations using the unit-of-production method (UOP) over the estimated useful lives of the related ore reserves. As new reserves are developed amortization expense should decrease.

General and administrative expenses increased by \$397,000 due to higher overhead expenses in Santiago relating to the start-up of commercial production at Pimenton of \$340,000, and other expenses of \$57,000.

Interest expense increased \$25,000 due to higher accretion expense on the Pimenton notes that were refinanced in 2004.

Six months ended March 31, 2005 and 2004

The Company incurred losses of \$2,862,000 and \$189,000 for the six months ended March 31, 2005 and 2004, respectively.

Revenue from gold was \$1,270,000 and from silver and copper was \$281,000 with related operating expenses of \$1,874,000. For the six months ended March 31, 2005 the mine operated at a loss which was expected because of modifications to the plant at Pimenton to increase its operating capacity from 140 tonnes to 300 tonnes per day and a change in the mining method to increase the head grade of ore into the plant. Anticipated benefits from these changes were not realized during the period but the Company believes such changes will have a beneficial effect on future operations. The entire mine's production is sold to ENAMI, a subsidiary of CODELCO, the state owned mining company. ENAMI was created to promote the growth of small and medium size mining companies and is mandated to accept the production of these companies.

Amortization expense increased by \$1,223,000 due to the start of commercial production at Pimenton. Prior to commercial production amortization expense, except for amortization on office furniture and equipment, was capitalized as development costs. Upon reaching commercial production, these capitalized costs were transferred from exploration properties to mining properties, plant and equipment and are amortized into operations using the unit-of-production method (UOP) over the estimated useful lives of

the related ore reserves. As new reserves are developed amortization expense should decrease.

General and administrative expenses increased by \$525,000 due to higher overhead expenses in Santiago relating to the start-up of commercial production at Pimenton of \$288,000, professional fees of \$114,000, travel of \$23,000 and various other expenses of \$100,000.

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

Interest expense increased \$13,000 due to higher accretion expense on the Pimenton notes that were refinanced in 2004.

On December 29, 2003, as a result the issuance of the OPIC loan agreement, the Pimenton note holders agreed to an additional extension of the due date of the Pimenton notes until one year after the OPIC notes are repaid. The notes were revalued and recorded at their fair values of \$976,000. The fair value of the notes was determined using a quarterly risk rate of return of 5%. This refinancing resulted in a gain of \$543,000. This gain was not recorded until the fourth quarter of fiscal 2004 but has been restated in the first quarter of fiscal 2004 in the accompanying financial statements.

Liquidity and Capital Resources

Unrestricted cash was \$279,000 at March 31, 2005.

On October 21, 2004 the Company sold through a private placement 40,000,000 units at Can. \$0.07 per unit, each unit comprised of one common share and one half of one common share purchase warrant to purchase a further common share at Can. \$0.09 per share at any time within 24 months of the date of issue. In addition, 3,000,000 common shares were sold at Can. \$0.07 per share of which 1,847,000 shares was purchased by an officer and director. In connection with this private placement, the Company also issued 4,300,000 brokers warrants, each exercisable at Can. \$0.07 per share, expiring 48 months from the date of issue. Net proceeds of the placement were \$2,158,541 of which \$276,806 was assigned to warrants and \$123,131 assigned to the broker warrants, using the Black-Scholes valuation model assuming risk-free rates of 2.96% and 3.62%, respectively, and a volatility factor of 30%.

Restricted cash was \$1,191,000 at March 31, 2005.

Under the terms of the loan agreement with OPIC, the Company is required, among other things, to establish an equity reserve account in lieu of a construction and completion

bond and a debt service reserve account. Accordingly, cash in the amount of \$1,191,000 has been designated as restricted on the accompanying balance sheet

At March 31, 2005 the Company was in default under certain operating and financial covenants of its loan agreement with OPIC. The Company presented OPIC with a forecast of expected compliance with such covenants and OPIC has granted the Company waivers until the dates indicated in the forecast.

Subsequent to March 31, 2005 OPIC released \$350,000 of the restricted cash to the Company and has agreed, under certain conditions which the Company believes it has met, to release additional amounts in June 2005.

Certain officers and directors have granted the Company advances totaling \$302,000 at March 31, 2005.

Outlook

The Company has entered in a letter of understanding with Rio Tinto Mining and Exploration Ltd., a subsidiary of Rio Tinto plc which will serve as a basis for a formal joint venture agreement for the exploration and development of the porphyry copper deposit at Pimenton. On April 28, 2005 a diamond drill program began on the porphyry copper deposit and by May 10 the drilling had been extended beyond the originally projected 650 meter length to 845 meters. Assay results of this drill hole are expected to be available mid-June 2005.

The Company has acquired 100% owned Tordillo gold/copper prospect which covers an area of 7,000 hectares and lies 11.5 kilometers south southwest of the Company's Pimenton Gold mine and porphyry copper deposit. Initial exploration results are encouraging and further work is planned to determine if a drill program is justified next year.

The Company is in discussions with CODELCO, the Chilean state owned copper company, regarding CODELCO's long term lime supply requirements.

Risks

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

Gold reserves are reduced by production and therefore must be replaced by expanding existing gold deposits or finding new ones. There can be no assurance that the Company's development and exploration programs will result in new gold reserves.

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

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

South American Gold and Copper Company Limited
Consolidated Balance Sheets

(expressed in thousands of U.S. dollars)

	March 31, 2005 (Unaudited) \$	September 30, 2004 \$
Assets		
Current assets		
Cash and cash equivalents	279	226
Restricted cash	432	429
Receivables-		
Trade	134	168
Sundry	385	376
Taxes	1,770	1,718
Inventory	225	118
	<u>3,225</u>	<u>3,035</u>
Equipment	33	-
Mineral properties, plant and equipment	13,880	14,664
Exploration properties	5,105	5,019
Restricted cash	759	754
Deferred debt expense	386	389
	<u>23,388</u>	<u>23,861</u>
Liabilities		
Current liabilities		
Current portion of long term debt	714	691
Notes payable	133	-
Accounts payable and accrued liabilities	1,098	1,204
Other	1,067	828
	<u>3,012</u>	<u>2,723</u>
Long term debt	3,223	3,333
Future income tax liability	980	980
Reclamation and remediation provision	716	706
Non-controlling shareholders' interest in consolidated subsidiary	142	154
	<u>8,073</u>	<u>7,896</u>
Shareholders' Equity		
Share capital	58,667	56,907
Contributed surplus	450	316
Options	242	192
Warrants	1,712	1,444
Deficit	-45,756	-42,894
	<u>15,315</u>	<u>15,965</u>
Total liabilities and shareholders' equity	<u>23,388</u>	<u>23,861</u>

Nature of operations and going concern (note 1)

Commitments and contingencies

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

Approved by the Board of Directors

Sgd. "Paul J. DesLauriers"
Chairman

Sgd. "Stephen W, Houghton"
Director

SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

Consolidated Statements of Operations and Deficit (Unaudited)

(Expressed in thousands of US dollars ,except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004 (Restated)
	\$	\$	\$	\$
Income				
Gold	669	-	1,270	-
Copper and silver	178	-	281	-
	<u>847</u>	<u>-</u>	<u>1,551</u>	<u>-</u>
Expenses				
Operating costs	937	-	1,874	-
Amortization	738	25	1,252	29
General and administrative	669	272	915	390
Stock based compensation	-	-	50	-
Foreign exchange	172	99	22	25
Interest	150	6	301	288
	<u>2,666</u>	<u>402</u>	<u>4,414</u>	<u>732</u>
Gain on refinancing	-	-	-	(543)
Interest income	(13)	-	(13)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(543)</u>
Loss before non-controlling shareholder's interest in consolidated subsidiary's Loss	1,806	402	2,850	189
Non- controlling shareholder's interest in consolidated subsidiary's Loss	<u>(12)</u>	<u>-</u>	<u>(12)</u>	<u>-</u>
Loss for the period	1,794	402	2,862	189
Deficit-beginning of period	43,962	37,878	42,894	38,210
Gain on warrant revaluation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deficit - end of period	<u>45,756</u>	<u>38,280</u>	<u>45,756</u>	<u>38,399</u>
Basic and diluted loss per share	<u>(0)</u>	<u>-</u>	<u>(0)</u>	<u>-</u>

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

SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED
Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of United States dollars)

	Three months ended		Six months ended	
	March 31,		March 31,	
	2005	2004	2005	2004
				(Restated)
Operating Activities	\$	\$	\$	\$
Net loss	(1,794)	(521)	(2,862)	(189)
Non-cash items				
Gain on refinancing	-	-	-	(543)
Write-downs of exploration properties	-	-	-	-
Amortization	738	25	1,252	29
Accretion of interest on notes payable and amortization of deferred debt expense	75	108	130	242
Foreign exchange	172	75	22	25
Non-controlling shareholder's interest in consolidated subsidiary's loss	(12)	-	(12)	-
Non-cash employee share compensation	-	-	50	-
Non-cash non-employee share compensation	-	-	-	-
	<u>(821)</u>	<u>(313)</u>	<u>(1,420)</u>	<u>(436)</u>
Change in non-cash working capital relating to operations	448	(10)	36	(341)
	<u>(373)</u>	<u>(323)</u>	<u>(1,384)</u>	<u>(777)</u>
Investing Activities				
Exploration properties	(39)	(2,230)	(88)	(2,909)
Equipment	-	-	-	-
Mineral properties, plant and equipment	(163)	-	(530)	-
Restricted cash	-	-	-	(1,177)
Other assets	-	-	-	-
	<u>(202)</u>	<u>(2,230)</u>	<u>(618)</u>	<u>(4,086)</u>
Financing activities				
Shares issued	-	863	2,159	5,342
Options exercised	-	331	-	331
Notes payable	214	1,200	275	1,200
Notes repaid	-	-	-	-
Debentures	-	-	-	-
Deferred debt expense	(45)	(210)	(45)	(227)
Non-controlling subsidiary shareholder interest	-	-	-	-
Other share equity	-	-	(311)	-
	<u>169</u>	<u>2,184</u>	<u>2,078</u>	<u>6,646</u>
Effect of foreign exchange on cash held in foreign currency	11	(33)	(23)	(9)
Increase (Decrease) in cash and cash equivalents during the period	(395)	(402)	53	1,774
Net cash and cash equivalents-beginning of period	674	2,288	226	112
Net cash and cash equivalents-end of period	<u>279</u>	<u>1,886</u>	<u>279</u>	<u>1,886</u>

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

SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

Notes to the Consolidated Financial Statements March 31, 2005 and 2004 (Expressed in United States dollars) (All tabular amounts are expressed in thousands except number of shares.)

1. Basis of Presentation

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

2. Nature of operations

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

3. Going concern

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

As at March 31, 2005, the Company reported a deficit of approximately \$45.8 million. This condition casts significant concern as to the ability of the Company to continue in business and meet its obligations as they come due. The Company's continuance as a going concern is dependent on profitable operations at its Pimenton gold mine. In the event the Pimenton does not generate sufficient cash, the assets may not be realized and the liabilities discharged at their carrying amounts, and these differences could be material.

4. Sundry receivables

Sundry receivables include advances to an officer and director of the Company of \$315,000 and \$252,000, as at March 31, 2005 and September 30, 2004, respectively.

5. Share Capital

	<u>Shares Issued</u>	<u>Amount</u>
September 30, 2004	389,642,949	\$56,907
Share issuance(a)	43,000,000	1,760
March 31, 2005	432,642,949	\$58,667

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

6. Long –term debt

As at March 31, 2005 the Company was not in compliance with certain operational and financial covenants of the OPIC loan agreement.

The Company has provided OPIC with a forecast of expected compliance with such financial and operational covenants and OPIC has granted the Company waivers until the dates indicated in the forecast.

Subsequent to March 31, 2005 OPIC released \$350,000 of restricted cash to the Company and has agreed, under certain conditions which the Company believes it has met, to release additional amounts in June 2005.

7. Restatement.

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

Directors* and Officers

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

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

William C. O'Donnell

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

Mario Hernandez A.*

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

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

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

Stephen W. Houghton*

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

David R. S. Thomson*

Santiago, Chile
Executive Vice President and Director of Exploration

Jay C. Kellerman

Toronto, Ontario, Canada
Secretary
Stikeman Elliott

Hector Araya

Santiago, Chile
Vice President

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

Corporate Information

Toronto Stock Exchange

Stock Symbol: SAG

Computershare Investor Services

Stock Registrar and Transfer Agent

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