

SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

**Report to Shareholders
For the
Third Quarter Ended
June 30, 2006**

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

**The financial statements for the quarter ended June 30, 2006 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)**

Forward-looking statements

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 include, among other things, statements regarding production levels, potential mineralization and reserves, exploration results and future plans and objectives of the Company. 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.

General

The following discussion provides information which management believes is relevant to an assessment and understanding of the financial condition and results of operations of South American Gold and Copper Company Limited and its consolidated subsidiaries (SAGC or the Company) as of August 14, 2006, and should be read in conjunction with the Company's annual consolidated financial statements and related notes thereto for the fiscal year ended September 30, 2005 which appear in the Company's 2005 annual report. All amounts stated herein are in US dollars, unless otherwise noted.

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

As of August 14, 2006, the Company has issued one class of common shares and has a total of 453,522,863 common shares outstanding. The Company has 118,629,520 common share purchase warrants outstanding, each of which is exercisable for one common share at exercise prices of Cdn\$0.065 to Cdn\$0.25 through December, 15, 2010. In addition up to 2,427,080 common shares may be issued to pay the first year's interest on the \$1,600,000 convertible secured debentures issued on April 13, 2006. Share options outstanding and exercisable as of May 15, 2006, total 62,895,000 exercisable at prices of Cdn\$0.045 to Cdn\$0.09 per common share expiring at various dates through April 2, 2013.

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 units 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 results of operations as of and for the three and nine months ended June, 2006 and 2005 and for its future prospects.

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. 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. In addition, the Company holds mining claims on Tordillo, a gold and copper prospect. The Company also holds interests in two limestone deposits.

Using its core mineral assets, SAGC believes it is positioned to grow into a profitable mining company when it resumes production at its Pimenton gold mine and develops its gold, copper and lime prospects.

Pimenton gold mine

The Pimenton gold mine remains closed due to damage caused by a major snow storm in June, 2005. The Company's insurance policy contains physical damage as well as business interruption coverage and the Company notified its insurance carrier of the physical damage and the shutdown of mining operations. The Company disagreed with the insurance company's initial findings with respect to the commencement of the business interruption coverage. Following proscribed procedures, the Company has notified the insurance carrier that it has elected its right to enter into arbitration as provided for under the Company's insurance policy. The Company's initial business interruption claim is for approximately \$3,000,000 and the insurance company has offered \$770,000 less \$120,000 previously paid. Management is continuing in arbitration.

Potential porphyry copper

Rio Tinto Mining and Exploration Ltd. ("Rio Tinto"), a wholly-owned subsidiary of Rio Tinto plc, has informed the Company that it has elected not to proceed with the exploration on the porphyry copper deposit at Pimenton. This decision was taken based on Rio Tinto's perception that the potential size of the project did not meet its requirements. Exploration had been carried out under a LOU between SAGC and Rio Tinto, signed in March 2005.

At a technical meeting, Rio Tinto informed SAGC of the final results of the exploration program. SAGC believes the results strongly demonstrate that continued exploration is justified with a solid drill target on which to build. The Company will conduct further drilling campaigns independently, or in conjunction with other majors that have expressed an interest in the Pimenton porphyry copper system.

Results

Results of operations

During fiscal 2005, the Pimenton mine operated from October 1, 2004 through June 19, 2005 when it was closed as a result of a major snow storm. The mine has been shutdown since that time.

Three months ended June 30, 2006 and 2005.

The Company incurred losses of \$578,000 and \$2,142,000 for the quarters ended June 30, 2006 and 2005, respectively.

There were no revenues, operating or amortization expenses because of the mine shutdown.

Temporary mine shutdown expenses of \$81,000, consisting of salaries, lease obligations, payments to suppliers, were incurred at the mine site and access road to the mine site caused by the shutdown of the mine.

General and administrative expenses decreased by \$218,000 substantially due to lower overhead in Santiago due to the start up of operations in fiscal 2005 and the mine shutdown in fiscal 2006.

Stock based compensation was down \$327,000 due to less stock options and bonus shares issued in the third quarter of fiscal 2006 versus the third quarter of fiscal 2005. Last year 15,440,000 stock options and 400,000 bonus shares were issued with a fair value of \$568,000 compared to 5,714,286 stock options and

1,500,000 bonus shares this year with fair value of \$241,000. Fair values were assigned using the Black-Scholes valuation model.

Interest expense increased by \$83,000 due to interest on and accretion of the convertible secured debentures issued in April 2006.

Interest income is down \$5,000 due to the reduction of escrow funds.

Six months ended June 30, 2006 and 2005

The Company incurred losses of \$2,030,000 and \$5,004,000 for the nine months ended June 30, 2006 and 2005, respectively.

Revenue from gold was \$2,000 and from silver and copper was \$2,000 in 2006 from the finalization of some sales to Enami. There were no operating or amortization expenses because of the mine shutdown.

Temporary mine shutdown expenses of \$811,000, consisting of salaries, lease obligations, payments to suppliers, were incurred at the mine site and access road to the mine site caused by the shutdown of the mine.

Under Chilean labor law and under Pimenton's labor contract, employees are entitled to severance and accrued vacation pay upon termination. The demand for such payments was not made when the mine shutdown in June 2005 under the assumption that the mine would resume operations. The mine had been shutdown for over six months and in February 2006 the union demanded such payments. Accordingly, the Company accrued \$428,000 for accrued severance and vacation pay and such amount is included in temporary mine shutdown expenses of \$811,000.

General and administrative expenses decreased by \$492,000 due to lower overhead in Santiago of \$357,000 due to the start up of operations in fiscal 2005, lower professional fees of \$45,000, insurance of \$40,000, communications of \$32,000 and lower other expenses of \$18,000.

Warrant revaluation expense of \$79,000 represents the fair value of the November, 2003 warrants that were modified on October 31, 2005. The fair values of the warrants were assigned using the Black-Scholes valuation model assuming a risk free interest rate of 2.55%, no dividend and a volatility factor of 50%

Stock based compensation was down \$370,000 due to less stock options and bonus shares issued in fiscal 2006.

Interest expense increased by \$82,000 due to interest on and accretion of the convertible secured debentures issued in April 2006.

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, promissory notes and debentures, bank debt and extended terms from creditors.

During 2004, the Company raised \$4,479,000 through private placements, \$861,000 through the exercise of warrants and \$393,000 through the exercise of share options for a total of \$5,733,000. In addition, the Company borrowed \$2,800,000 from OPIC. These funds were used primarily to bring the Pimenton gold mine into commercial production on July 1, 2004. On June 9, 2005, a major snow storm moved through the region causing a temporary shutdown of the mine. From the commencement of commercial operations through to the shutdown, the mine has operated at a cash operating loss.

Due to events at the mine, Pimenton advised OPIC that it believes it will not be in compliance with financial and operating covenants of its loan agreement for the calendar quarters through and until October 1, 2006. As of September 30, 2005, OPIC has granted Pimenton waivers with respect to the financial and operating events of default discussed above until October 1, 2006.

Pimenton is in payment default on the principal payment of \$311,111 and interest payment of \$78,434 which were due on June 15, 2006. OPIC has granted the Pimenton a temporary waiver with respect to the June 15, 2006 principal and interest payments until August 23, 2006. By such date the Company anticipates completing a private placement which will enable to Pimenton to make the delinquent June 15, 2006 payments plus default interest. In addition the Company has agreed to replenish the debt service reserve account in the amount of \$375,967, representing the principal and interest payments due December 15, 2006 immediately upon receipt of the insurance proceeds from damage to the Pimenton mine but in no case later than November 1, 2006.

Pimenton declared "force majeure" with respect to salary payments and other benefits payable with respect to its labor contracts with the workers and certain staff personnel at its mine. Pimenton had also notified its creditors in writing that it has ceased payment of all trade payables and amounts due under lease purchase or other contracted services. Two officers and directors have advanced funds to satisfy some of these obligations and such advances were converted into long term convertible debentures on April 13, 2006.

Restarting operations is dependent upon management's success in raising sufficient capital to fund required capital improvements to restart operations, existing financial commitments and working capital requirements.

The Company has signed a letter agreement to sell a 49.9% interest in its Pimenton gold mine for a purchase price of a minimum of \$8,000,000 and a maximum of \$9,500,000. The purchaser will have no interest in the porphyry copper deposit at Pimenton. In addition, subject to regulatory approval, it will undertake a non-brokered private placement of up to 34,000,000 common shares at a price of CAD \$0.05 per common share for a minimum of \$1,000,000 and a maximum of \$1,500,000.

Proceeds from the sale of the 49.9% interest in the Pimenton gold mine and the private placement will be used to restart the Pimenton mine and mill, upgrade the equipment and conduct a mine exploration and development program which will enable the mine to begin production within five months from the start of the development program. Production will be progressively ramped up to reach a production level of 47,000 ounces per year and, with copper credits (using \$525 per ounce of gold and \$2.50 per pound of copper) of approximately 60,000 gold ounce equivalents in nine to ten months after the start of the development program. The Company plans to progressively increase production to in excess of 100,000 gold equivalent ounces in the future.

The ability to raise the necessary capital is not presently determinable.

At June 30, 2006, cash and cash equivalents were \$5,000 and \$22,000 in current restricted cash.

During the period ended June 30, 2006, the Company raised \$700,000 through the exercise of 16,635,628 common share purchase warrants and \$144,500 through the exercise of 2,344,286 share options. In addition, \$418,000 was released from the debt service escrow account by OPIC. These funds were used to pay interest and principal payments to OPIC and fund operating losses.

Proposed transactions

Three major copper mining companies have individually requested permission to visit the Company's Tordillo gold/copper prospect with the expressed interest of conducting preliminary geological examinations of the potential porphyry copper deposit at Tordillo to determine their interest of entering into joint venture discussions. At present the Company is concentrating its efforts on restarting the Pimenton gold mine.

Related party transactions

On April 13, 2006 the Company completed a private placement of \$1,600,000 convertible secured debentures with a seven year maturity and an interest rate of LIBOR plus 2% with two officers and directors. The principal and interest payable thereon in the first year are convertible for up to 30,535,384 common shares of the Company. These debentures were issued for funds previously advanced by these officers and directors and did not result in any new funds into the Company.

The note receivable from an officer and director is a non-interest bearing note due on or before December 31, 2006, collateralized by 6,532,000 common shares of the Company from the officer and director of the Company in the amount of \$286,233.

Prospective

The Company has signed a letter agreement to sell a 49.9% interest in its Pimenton gold mine for a purchase price of a minimum of \$8,000,000 and a maximum of \$9,500,000. In addition, subject to regulatory approval, it will undertake a non-brokered private placement of up to 34,000,000 common shares at a price of CAD \$0.05 per common share for a minimum of \$1,000,000 and a maximum of \$1,500,000. If successful, these funds will be used to perform the necessary exploration and development work needed restart the Pimenton mine.

Management is considering joint venture alternatives for the exploration of the Tordillo prospect.

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.

Management believes that the values of the Pimenton gold mine, the potential porphyry copper deposit, the Catedral and Cal Norte limestone deposits and the Tordillo prospect 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

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 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 writedown of the asset carrying value, b) production cutbacks and c) cessation of operations.

The Company does not use financial instruments to mitigate the risks of changes in the price of gold or currency fluctuations.

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. 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.

South American Gold and Copper Company Limited
Consolidated Balance Sheets

(expressed in thousands of U.S. dollars)

	June 30, 2006 (Unaudited) \$	September 30, 2005 \$
Assets		
Current assets		
Cash and cash equivalents	5	50
Restricted cash	22	440
Note receivable from an officer and director	286	-
Receivables-		
Trade	-	3
Sundry	84	219
Recoverable taxes	348	357
Inventory	98	103
	<u>843</u>	<u>1,172</u>
Note receivable from an officer and director	-	286
Equipment	5	12
Mineral properties, plant and equipment	13,589	13,486
Exploration properties	5,328	5,199
Recoverable taxes	1,754	1,826
Deferred debt expense	275	335
	<u>21,794</u>	<u>22,316</u>
Liabilities		
Current liabilities		
Short term borrowings	123	232
Current portion of long term debt	1,867	724
Accounts payable and accrued liabilities	2,317	2,879
Taxes payable (IVA)	372	368
Amounts due related parties	590	884
	<u>5,269</u>	<u>5,087</u>
Long term debt	2,114	2,868
Reclamation and remediation provision	778	778
Non-controlling shareholders' interest in consolidated subsidiary	141	141
	<u>8,302</u>	<u>8,874</u>
Shareholders' Equity		
Share capital	59,730	58,688
Contributed surplus	1,654	451
Options	783	680
Warrants	1,444	1,712
Deficit	(50,119)	(48,089)
	<u>13,492</u>	<u>13,442</u>
Total liabilities and shareholders' equity	<u>21,794</u>	<u>22,316</u>

Going concern and nature of operations (note 1)

Commitments and contingencies

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

Approved by the Board of Directors

"Paul J. DesLauriers"
Paul J. DesLauriers
Chairman

"Stephen W. Houghton"
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		Nine Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Income				
Gold	-	565	2	1,835
Copper and silver	-	149	2	430
	<u>-</u>	<u>714</u>	<u>4</u>	<u>2,265</u>
Expenses				
Operating costs	-	1,328	-	3,602
Amortization	-	549	-	1,801
Temporary mine shutdown	81	-	811	-
General and administrative	129	347	482	974
Warrant revaluation	-	-	79	-
Stock based compensation	241	568	248	618
Foreign exchange	(58)	(33)	(67)	(111)
Interest	185	102	485	403
	<u>578</u>	<u>2,861</u>	<u>2,038</u>	<u>7,287</u>
Interest income	-	(5)	(4)	(18)
Loss before non-controlling shareholder's interest in consolidated subsidiary's Loss	578	2,142	2,030	5,004
Non- controlling shareholder's interest in consolidated subsidiary's Loss	-	-	-	-
Loss for the period	578	2,142	2,030	5,004
Deficit-beginning of period	49,541	45,756	48,089	42,894
Deficit - end of period	<u>50,119</u>	<u>47,898</u>	<u>50,119</u>	<u>47,898</u>
Basic and diluted loss per share	<u>-</u>	<u>(0.01)</u>	<u>-</u>	<u>(0.01)</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 June 30,		Nine months ended 30-Jun	
	2006	2005	2006	2005
Operating Activities	\$	\$	\$	\$
Net loss	(578)	(2,142)	(2,030)	(5,004)
Non-cash items				
Amortization	-	549	-	1,801
Accretion of interest on notes payable and amortization of deferred debt expense	95	63	227	189
Foreign exchange	(58)	(33)	(67)	(111)
Non-controlling shareholder's interest in consolidated subsidiary's loss	-	(3)	-	(15)
Non-cash employee share compensation	241	568	248	618
Non-cash non-employee share compensation	-	27	-	27
Warrant revaluation	-	-	79	-
	(300)	(971)	(1,543)	(2,495)
Change in non-cash working capital relating to operations	83	1,036	(306)	809
	(217)	65	(1,849)	(1,686)
Investing Activities				
Exploration properties	(65)	(39)	(129)	(88)
Equipment	-	-	7	-
Mineral properties, plant and equipment	(77)	(64)	(103)	(594)
Restricted cash		-	418	-
	(142)	(103)	193	(682)
Financing activities				
Shares issued	-	-	700	2,159
Options exercised	40	-	145	-
Notes payable	-	-	-	275
Notes repaid	-	-	(109)	-
Deferred debt expense	(13)	-	(17)	(45)
Advances from officers	319	268	1,201	596
Repaymant notes		(311)	(311)	(622)
	346	(43)	1,609	2,363
Effect of foreign exchange on cash held in foreign currency	-	1	2	(22)
Increase (Decrease) in cash and cash equivalents during the period	(13)	(80)	(45)	(27)
Net cash and cash equivalents-beginning of period	18	279	50	226
Net cash and cash equivalents-end of period	5	199	5	199

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 June 30, 2006 and 2005 (Expressed in United States dollars) (All tabular amounts are expressed in thousands except number of shares.)

1. 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 the carrying value 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 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 Company's Pimenton mine (Pimenton) and along the road leading to it. Avalanche experts at the mine site were successful in controlling most avalanches protecting the camp and plant buildings at the mine. However, electrical and air compressor equipment at the mine main portal entrance was damaged causing a shutdown of the mine and it has remained closed since that time. Pimenton declared "force majeure" under Chilean law with respect to salary payments and other benefits payable under its labor contracts with the workers and certain staff personnel at its mine. Pimenton has also notified its creditors in writing that it has ceased payment of all trade payables and amounts due under lease purchase or other contracted services.

As at June 30, 2006, the Company reported a deficit of approximately \$50.1 million and a working capital deficiency of \$4.4 million, and continues to incur significant cash outflows. These conditions, together with the mine shutdown, cast significant doubt as to the ability of the Company to continue as a going concern.

The Company's continuance as a going concern is dependent upon obtaining adequate funding, including insurance remediation to recommence operations at the Pimenton gold mine, reaching profitable operations at the mine, pursuing joint venture partners, sale or other disposition of all or part of its assets, or additional external funding. There is no assurance that the steps management is taking will be successful and, in the event that such resources are not available, the Company's assets may not be realized or its liabilities discharged at their carrying amounts, and these differences could be material.

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 in which the Company holds mining claims. The Company also holds interests in two limestone deposits.

Prior to placing Pimenton into commercial production, all exploration and development costs relating to Pimenton had been capitalized. Upon commencing commercial production, those capitalized costs were transferred to producing properties.

The recoverability of the amounts shown for exploration and development costs is dependent upon the

discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the projects and upon future profitable production or proceeds from the disposition thereof.

2 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, 2005. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company’s annual financial statements for the fiscal year ended September 30, 2005 which appear in the Company’s 2005 annual report.

3. Related party transactions

The note receivable from an officer and director is a non-interest bearing note due on or before December 31, 2006, collateralized by 6,532,000 common shares of the Company from the officer and a director of the Company in the amount of \$286,233 at June 30, 2006 and September 30, 2005.

4. Share Capital

	<u>Shares Issued</u>	<u>Amount</u>
September 30, 2005	433,042,949	\$58,688
Share issuance(a)	16,635,628	774
Share issuance(b)	1,714,286	126
Share issuance (c)	1,500,000	85
Share issuance (d)	<u>630,000</u>	<u>57</u>
June 30, 2006	<u>453,522,863</u>	<u>\$59,730</u>

(a) In connection with a private placement that closed in three tranches on November 10, 25, and 27, 2003, the Company issued 24,940,107 common share purchase warrants exercisable at Cdn \$0.09 per common share and expiring on November 10, 25, and 27, 2005. The warrants were assigned a value of \$334,505. In addition, the Company issued 4,974,271 brokers warrants exercisable at Cdn \$0.09 per common share and expiring on November 10, 25 and 27, 2005. The brokers warrants were assigned a value of \$66,716.

On October 31, 2005, the TSX approved a reduction in the exercise price from Cdn. \$0.09 to Cdn. \$0.055 per common share for the common share purchase warrants and the brokers warrants and the issuance of an additional common share purchase warrant to purchase a further common share at Cdn \$0.07 per share at any time within 24 months of the date of issue for the period through November 30, 2005. The fair value of these modified warrants of \$78,829 in excess of the fair value of the original warrants at the modification date of \$nil, was charged to expense. The fair values of the warrants were assigned using the Black-Scholes valuation model assuming risk free interest rates of 2.55%, no dividend and a volatility factor of 50%.

On November 8, 16 and 30, 2005, 16,635,628 warrants were exercised at a price of Cdn.\$0.055 per common share resulting in the issuance of 16,635,628 common shares and 16,635,628 common share purchase warrants to purchase a further common share at Cdn \$0.07 per share at any time within 24

months of the date of issue. Net proceeds of the exercise of warrants were \$699,830 of which \$152,622 was assigned to the warrants using the Black-Scholes valuation model assuming risk free interest rates of 3.68% to 3.73%, no dividend and a volatility factor of 50%. The \$226,910 value assigned to these warrants was transferred to share capital.

(b) On February 28, 2006, a director of the Company exercised 1,714,286 options at an exercise price of Cdn. \$0.07 per common for a net proceeds of \$104,611 and the fair value assigned to these options of \$21,000 was transferred to share capital.

(c) On March 1, 2006 the Board of Directors approved the issuance of 1,500,000 common shares under the Company's Share Bonus Plan subject to the shareholders approving amendments to the Company's Share Option Plan. Such amendments were approved by the shareholders on April 18, 2006. The value assigned to these bonus shares was the TSX closing price on April 17, 2006.

(d) May 15, 2006, a director of the Company exercised 630,000 options at an exercise price of Cdn. \$0.07 per common for a net proceeds of \$39,500 and the fair value assigned to these options of \$17,279 was transferred to share capital.

5. Long-term debt

(a) Due to shutdown of the Pimenton gold mine, Compania Minera Pimenton ("Pimenton") advised OPIC that it believes it will not be in compliance with financial and operating covenants of its loan agreement for the calendar quarters through and until October 1, 2006. As of September 30, 2005, OPIC granted Pimenton waivers with respect its financial and operating events of default until October 1, 2006.

Pimenton is in payment default on the principal payment of \$311,111 and interest payment of \$78,434 which were due on June 15, 2006. OPIC has granted the Pimenton a temporary waiver with respect to the June 15, 2006 principal and interest payments until August 23, 2006. By such date the Company anticipates completing a private placement which will enable to Pimenton to make the delinquent June 15, 2006 payments plus default interest. In addition the Company has agreed to replenish the debt service reserve account in the amount of \$375,967, representing the principal and interest payments due December 15, 2006 immediately upon receipt of the insurance proceeds from damage to the Pimenton mine but in no case later than November 1, 2006.

Accordingly, the balance due on the OPIC loan has been classified as a current liability.

(b) On April 13, 2006 the Company completed a private placement of \$1,600,000 convertible secured debentures with a seven year maturity and bearing interest at LIBOR plus 2% to two officers and directors of the Company. The principal and interest payable during the first year are convertible for up to 30,535,384 common shares of the Company.

The conversion feature of convertible secured debentures was assigned a fair value of \$905,514 using the Black-Scholes valuation model assuming a risk free interest rate of 4.3%, no dividend and a volatility factor of 50% and such fair value was credited to contributed surplus. The debentures holders were granted a secured interest in the Tordillo exploration project.

The debentures were recorded at their fair value of \$694,486 and by March 31, 2013, the carrying value of the debentures will have been accreted to \$1,600,000, the face amount due upon maturity.

The Company can call the debentures under certain conditions. The Company can also prepay by giving the lender notice of such prepayment and the lender must accept such prepayment or convert within a certain time period.

Summary of long-term debt:

OPIC	\$1,866
Pimenton notes	1,392
Convertible secured debentures	<u>722</u>
	3,980
Less :Current portion	<u>1,866</u>
Long-term debt	<u>\$2,114</u>

6. Recoverable taxes

Recoverable taxes represent value-added tax (VAT) levied on the purchase of goods and services used in used in exploration and development of the Pimenton mine. The amount of VAT borne on property, plant and equipment can be recovered on request to the tax authorities. The Company is in the process of requesting this VAT tax refund.

VAT relating to other expenditures is recoverable either by means of a credit against tax due on domestic sales of the Company or by requesting reimbursement of VAT borne when exporting or export commitments are proven. Due to the mine shutdown it is unlikely that there will be sufficient production to recover these taxes within one year. Accordingly, the balance has been classified as a long term receivable.

7. Comparative amounts

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

FORM 52-109F1

Certification of Interim Filings

I, Stephen W. Houghton, President and Chief Executive Officer, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of South American Gold and Copper Company Limited, (the issuer) for the interim period ending June 30, 2006;
2. Based on my knowledge, 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. Based on my knowledge, 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 and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures for the issuer, and we have designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared.

August 14, 2006

"Stephen W. Houghton"

Stephen W. Houghton
President and Chief Executive Officer

FORM 52-109F1

Certification of Interim Filings

I, William C. O'Donnell, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) of South American Gold and Copper Company Limited, (the issuer) for the interim period ending June 30, 2006;
2. Based on my knowledge, 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. Based on my knowledge, 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 and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures for the issuer, and we have designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared.

August 14, 2006

"William C. O'Donnell"

William C. O'Donnell

Executive Vice President and Chief Financial Officer

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

President and Chief Executive Officer

Founder of South American Gold and Copper
Company Limited

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

David R. S. Thomson*

Santiago, Chile

Executive Vice President and Director of Exploration

William C. O'Donnell

New York, New York

Executive Vice President and Chief Financial Officer

(1) Member, Audit Committee

(2) Member, Compensation Committee

Corporate Information

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Exploration and Development Office:

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Providencia, Santiago, Chile

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Solicitors:

Stewart McKelvey Stirling Scales

Halifax, Nova Scotia, Canada

Macleod Dixon LLP

Toronto, Ontario, Canada

Auditors:

PricewaterhouseCoopers LLP

Toronto, Ontario, Canada

Stock Registrar and Transfer Agent

Computershare Investor Services