SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED

Report to Shareholders
For the
Third Quarter Ending
June 30, 2010
(These statements have not been audited)

Listed on the Toronto Stock Exchange
Symbol: SAG

These financial statements for the three and nine month periods ended June 30, 2010 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 June 30, 2010 and 2009 and the nine months ended June 30, 2010 and June 30, 2009, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of August 13, 2010. The discussion should be read in conjunction with the audited consolidated financial statements for 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 "Risk Factors" 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 cash flows, revenue and expenses, expectations regarding the

timing for the calculation of mineral reserves, the anticipated effect of production of gold dore at the Pimenton mine site and the Company's expectations regarding its dividend policy

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, labor 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 August 13, 2010, the Company has issued one class of common shares (each, a "Common Share") and had a total of 841,177,633 Common Shares outstanding. As of August 13, 2010, the Company had 124,932,230 Common Share purchase warrants outstanding, each of which is exercisable into one Common Share at exercise prices of CA$0.025 to CA$0.70 through May, 2015. Options granted under the stock option plan of the Company (each, an "Option") outstanding as of August 13, 2010, totaled 86,470,000 of which 76,670,000, are currently exercisable into one Common Share at prices of CA$0.035 to CA$0.09 per Common Share expiring at various dates through April 19, 2015. On April 21, 2010 and May 11, 2010 the Company issued four Convertible Unsecured Debenture totaling $2,632,172 convertible into 63,320,014 common shares of the Company. Three of the Convertible Unsecured Debentures also have warrants attached to purchase up to 30,733,164 common shares of the Company. On June 29, 2010 two of the Unsecured Convertible Debentures were converted totaling $2,002,172 into 47,237,463 shares of common stock of the Company. The principal on the Company's $1,600,000 convertible secured debenture was converted into 28,108,288 Common Shares effective June 9, 2009.

The following 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 June 30, 2010 and the nine month period ended June 30, 2010 and for its future prospects. It consists of the following subsections:

- Overall Performance
- Capacity to Deliver Results
- Results of Operations
- Summary of quarterly Results
- Related Party Transactions
- Risk Factors
- Accounting Policies
- Disclosure Controls and Procedures
- Internal Control Over Financial Reporting

Overall Performance

The Company faces competition from companies with far greater resources for high quality gold and copper prospects. However, it is necessary to first identify a high quality

prospect through exploration. For this reason the Company does not feel disadvantaged by companies with greater resources. The Company's Pimenton gold/copper mine is a narrow high grade gold/copper mine located in the high mountain range of Chile. Because of its location it is subject to snow and avalanches which increase operating costs and can cause temporary shut down during the Chilean winter season compared to other gold/copper mines which are located in more temperate climates. Mining costs in a narrow high grade mine such as Pimenton can also be higher on a cost per tons basis than in underground larger vein mines. However, because to date the gold/copper veins at Pimenton are of high grade the costs per ounce of gold/copper can be lower than that of a more conventional gold/copper mine. Because of the Pimenton mine's location, all electricity at the mine is self generated which increases the costs compared to a mine which is located on an electric grid. However, the grade of gold/copper ore at Pimenton to date is of such high grade that electric costs per ounce of gold can be lower than a mine operating on an electric grid but which has a lower grade of gold/copper ore per ton.

In the final analysis, developing high grade gold/copper prospects is a function of willingness to prospect irrespective of a company's resources. The cash cost per ton of ore is not as important as the cash cost per ounce of gold. The Pimenton gold mine continues to advance relative to its plans to gradually expand production to 150 tons per day in mid 2010 and increase production to near 200 tons per day by mid 2011.

Using its core mineral assets, the Company believes it is now positioned to grow into a profitable mining company as it continues production at its Pimenton gold/copper mine and continues to develop it's indicated resources into proven and probable reserves.

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, and La Bella prospects are not currently reflected in the Company's market capitalization and will continue its effort to demonstrate the underlying values of the Company's assets.

Pimenton gold mine

Pimenton encompasses 3,121 hectares (7,708 acres).

The Pimenton gold mine started operations in 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. In December 2007, the Company was successful in raising funds sufficient to start-up operations at its Pimenton gold mine. In January 2008, the Company commenced work to prepare the mine for operations.

Most of the Company's efforts have been focused on restarting Pimenton. The Pimenton mine was put into production in July 2008 with commercial production being declared 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 150 tons per day in 2010 with a further increase to 200 tons per day in mid 2011. 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, 2009 resources and reserve report which was prepared in compliance with National Instrument 43-101 -*Standard of Disclosure for Mineral Projects* ("NI 43-101") into the proven and probable reserves and continue exploration for new gold veins at Pimenton.

Pimenton - porphyry copper

The Company has conducted exploration activities on a potential porphyry copper deposit located within the Pimenton area on which the Company holds mining claims. Based on a diamond drill program completed by Rio Tinto Mining and Exploration Ltd. ("Rio Tinto") on the potential porphyry copper deposit located within the Pimenton area Rio Tinto provided the Company with an exploration report which among other things, identified a copper gold porphyry system with potential resources of several hundred million tons and added significant value to the Pimenton porphyry copper project.

In March 2007, the Company entered into a letter of undertanding 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, p.l.c. ("Anglo America"), pursuant to which Anglo agreed to fund and complete a 2,000 meters diamond drill program on the potential porphyry copper deposit located within the Pimenton area. Anglo completed this drill program. In October 2008, during its joint 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 2010 exploration season and may conduct further drilling on the prospect during the 2010-2011 exploration season.

Tordillo

The Company holds mining claims on Tordillo which 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 gold and copper veins which may be widespread and represent a separate exploration target. Tordillo is located in an area of intense exploration activity and was acquired by the Company in 2006.

Bandurrias

An interest in Bandurrias, a copper prospect, was acquired by the Company in August 2007 by way of an option agreement. Under the terms of this option agreement, $30,000 was paid on signing; $70,000 was due nine months after signing, followed by four payments of $100,000 every nine months, with a final payment at 36 months of

$600,000. The balance of the $6,500,000 price, being $5,400,000, was to 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 in 2008 relating to this option agreement, but acquired approximately 13,400 hectares (33,098 acres) surrounding the Bandurrias Prospect area in which the company held a 100% interest. In June, 2009 the Company did not renew its claims on 11,500 hectares (28,405 acres), leaving the Company with 1,900 hectares (4,693 acres) on Bandurrias. In November, 2009 the Company placed claims on approximately 10,935 hectares (27,000 acres) bring its total position on Bandurrias to approximately 12,835 hectares (31,693 acres). The Company elected to write off the balance of mining property costs totaling $18,289 on June 30, 2010 ($73,915 in 2009).

La Bella

The Company has signed an option agreement (the "La Bella Option Agreement") to earn a 100% interest on claims covering approximately 5,900 hectares (14,573 acres) on the La Bella prospect area (formally the inner circle"). The Company has also put down additional claims covering the El Chilque project area (formally the outer circle") to earn a 100% interest which encompasses an additional area of approximately 24,900 hectares (61,500 acres) of claims located 75 kilometers southwest of Santiago, Chile. See "Liquidity and Capital Resources – La Bella Option Agreement" for a discussion of the option payments required under the La Bella Option Agreement.

A small field crew is prospecting for gold veins on the 30,800 hectares (76,073 acres) of total claims held by the Company. In addition, geochemical soil sampling is being carried out on the vein outcrops. Subsequent drilling will be based on geochemical results.

Limestone deposits

The Company holds interest in two 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 to 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.

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.

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.

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.

The Company has taken the decision to expense its exploration costs and mining property costs until it deems the project to have definitive resource potential as defined by National Instrument 43-101. Exploration and mining properties written-off during the period ended June 30, 2010 totaled $1,208,803 ($163,000 – 2009), and were as follows: Catedral $167,682 ($43,417 - 2009); La Bella $734,179 ($25,216 – 2009); Cal Norte $4,012 ($7,239 – 2009); Tordillo $272,190; and Bandurrias $18,288 ($73,915– 2009) The balance of $12,452 ($13,697 – 2009) represents a write-off of recoverable taxes that had been capitalized against these properties.

Capability to Deliver Results

Pimenton gold mine

On December 29, 2003, Compania Minera Pimenton ("CMP") entered into a loan agreement with the Overseas Private Investment Corporation ("OPIC") for $2,800,000 of 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. Effective June 14, 2009 the Company renegotiated the terms of the OPIC wavier agreement. Under the new agreement, the Company has signed a "Standstill Agreement" with OPIC and has agreed to make quarterly principal payments at the rate of $622,223 beginning on June 15, 2009 versus semi-annual payments of the

same amounts called for in the original loan agreement. OPIC has agreed to the repayment of the last principal payment of $288,722 plus interests on or before September 15, 2010.

Potential porphyry copper

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. The Company elected to write off the balance of its mining property costs and exploration costs totalling $272,190 in June 2010.

La Bella

For the nine months ended June 30, 2010, the Company wrote off a total of $734,179 (2009 - $25,216) relating to mining property costs and exploration costs on the La Bella in line with its policy of writing off mining property costs and explorations expenditures until a resource potential in accordance with NI 43-101 has been established.

Limestone deposits

As at June 30, 2010, the Company had contributed $3,702,682 (2009 - $3,535,000) to finance a drilling program on Catedral/Rino and completed a preliminary feasibility study for construction of a 1,320 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. At September 30, 2009 the Company wrote off the balance of $3,535,000 in mining properties and exploration costs relating to Catedral/Rino 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. For the nine months period ended June 30, 2010, the Company wrote off an additional $167,682 (2009 - $43,417) relating to mining property costs on the Catedral/Rino.

As at June 30, 2010, the Company had contributed $1,545,264 (2009 - $1,541,000) to finance a bankable feasibility study on the project, 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, in 2009 the Company wrote off the balance of $1,541,252 in mining property costs 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. For the nine months period ended June 30, 2010, the Company wrote off an additional $4,012 (2009 - $7,239) of mining property costs.

Results of Operations

Below are the estimated costs to continue operations of the Pimenton mine, including past costs to restart operations at the Pimenton mine. Included are the Common Stock issued in dollars versus the estimated cost to restart operations and the additional cost incurred.

	Actual Six months to June 30, 2010	**December 31, 2009**	**December 31, 2008**	**December 31, 2007**
Revenues from gold and copper sales	4,751,000	10,955,000	1,824,000	-
Beginning cash	757,000	438,000	3,467,000	344,000
Loan from Officers and Directors	819.833	572,000	-	-
Debenture	630,000	-	-	-
Common Stock issued	-	-	1,872,000	3,025,000
Warrants excised	-	-	57,000	390,000
	6,957,833	11,965,000	7,220,000	3,759,000
Operating cost and general administrative cost before royalties	(4,989,000)	(8,757,000)	(1,331,000)	-
Net liabilities and asset paid	(1,205,833)	(2,451,000)	-	-
Estimated cost to restart Pimenton Mine operations	-	-	(3,579,000)	(292,000)
Additional costs	-	-	(1,872,000)	-
Cash at end of the period	**763,000**	**757,000**	**438,000**	**3,467,000**

Included in the estimated costs to restart Pimenton mine operations was $1,500,000 of working capital for each period ended September 30, 2007 and 2008. The additional costs of $1,872,000 included:

1. Building of an entire new snow load roof over the Pimenton plant versus a partial roof at an estimated additional cost of $700,000.

2. Additional working capital of approximately $500,000 caused by delays in arrival of overseas equipment for the plant. This caused a two month delay in getting the plant into commercial production.

3. Additional snow handling equipment not originally budgeted for including two

refurbished Piston Bully snow cats at a cost of $500,000 plus freight and taxes.

4. In addition, general improvements were made in the plant at Pimenton, the rebuilding of additional mining equipment and improvements to the camp at a total cost of approximately $172,000.

The additional cost of $1,872,000 was covered by a non-broker private placement of 38,275,822 units which closed on September 9, 2008. Three directors, two of whom are also officers of the Company purchased 22,000,000 units. Each unit was priced at $0.05. Each unit consists of one common share and one-half Common Share purchase warrant. Each whole warrant is exercisable at an exercise price of $0.07 for a period of two years from closing. Net proceeds from the placement were $1,872,421.

In December 2009, additional working capital of $572,000 was provided by the executive-vice-president of claims and land management and the executive-vice-president of exploration, both directors of the Company. On April 21, 2010 $572,000 of convertible unsecured debentures (the "D Debentures") were issued to them. The conversion price on the five year B Debentures is CA$ $0.04 per share convertible into an aggregate of up to 14,650,575 common shares of the Company. Interest rate on the Debenture is 6% payable annually. In addition the B Debenture holders were issued 14,650,575 warrants exercisable at CA$ $0.05 per common share of the Company. On June 29, 2010, Mr. David R.S. Thomson and Mr. Mario Hernández converted $571,667 convertible unsecured debenture B.

In March 2010 to May 2010, additional working capital and capital expenditures at Pimenton in the amount of $630,000 was provided through two non brokered private placements. On April 21, 2010 $300,000 of convertible unsecured debentures (the "C Debentures") were issued to five non-insiders of the Company. The conversion price of the C debentures is CA$0.04 per share convertible into up to 7,821,000 shares of common shares of the Company. Interest rate on the C Debentures is 6% payable annually. In addition the debenture holders were issued 7,821,000 common share purchase warrants per common share of the Company exercisable for 60 months from the date of issuance at CA$0.05 per share. On May 11, 2010 $330,000 of convertible unsecured debentures (the "D Debentures") were issued to four non-insiders of the Company. The conversion price of the D Debentures is CA$0.04 per share convertible into up to 8,261,550 shares of common shares of the Company. Interest rate on the D Debentures is 6% payable annually. In addition the Debenture holders were issued 8,261,550 common share purchase warrants per common share of the Company exercisable for 60 months from the date of issuance at CA$0.05 per share.

In June 2010, additional working capital of $819,833, in the form of an advance was provided by the executive-vice-president of claims and land management and the executive-vice-president of exploration, both directors of the Company.

The Company believes that its Pimenton mine will generate sufficient cash flow to cover its future operating costs, future capital expenditures and to cover the current operating costs of the Company.

The Company plans to gradually increase production to 150 tons per day in 2010. The Company's ability to maintain its current level of cash flow per quarter is dependent on maintaining mine production and plant production of at least 100 tons per day, on maintaining the level of grade of ore into the plant and maintaining the recovery rate of Knelson gold concentrates and copper concentrates. The future price of gold will also have a positive or negative impact on the ability of Pimenton to maintain the current level of quarterly profitability.

Result of operations – for the quarter ended June 30, 2010, compared to the quarter ended June 30, 2009.

The Company incurred loss of $2,803,000 for the three months ended June 30, 2010 compared to income of $651,000 for the three months ended June 30, 2009. A part of this loss was caused by the Company's decision during the quarter ended June, 2010 to write down its mining property costs in addition to its exploration cost which totaled $1,132,734 (see detail below).

Revenue from gold sales for the three months ended June 3, 2010 were $2,514,068 (2009 - $2,455,000), and from copper and silver sales were $199,857 (2009 - $435,000). The mine was declared to be in commercial production effective October 1, 2008.

Operating expenses were $2,503,440 for the three months ended June 30, 2010 compared to $1,925,000 for the same period in 2009. The increase during the three months consisted of: mine expenses $491,068; management $3,294; maintenance and road operations $68,252; camp expenses of $124,358; health clinic and safety and other of $8,862. This was offset by a reduction in plant operations $11,822; transportation of concentrate $20,739; royalties of $7,351 and smelting, refining and metallurgical charges $77,482.

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 June 30, 2010. 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 June 30, 2010 was $37,739 ($35,106- 2009)

Amortization expense was $170,232 for the three months ended June 30, 2010 compared to $173,197 for the same period in 2009 due to the commencement of commercial production at Pimenton on October 1, 2008. Amortization expenses are amortized into operations using the unit-of production method (UOP) over the estimated useful lives of the related ore reserves. Depreciation expenses for the three months ended June 30, 2010

was $234,323 compared to $176,691 for the same period in 2009. The remaining increase of $57,632 was due to mining equipment purchases.

General and Administrative costs for the three months ended June 30, 2010 were $467,492 compared to $330,000 for the same period in 2009. This $137,492 increase was due to an increase of $107,013 in professional fees and services, of which $61,125 related to legal fees; $42,197 for accounting; $3,691 other services. In additions for the three months ended June 30, 2010 the company incurred an increase of $112,892 in salaries. This was offset by a reduction in: (i) transport of $43,996; (ii) shareholders expenses of $23,881; (iii) overhead of $8,248; (iv) insurance and others expenses of $6,288.

Stock based compensation was $902,524 during the three months period ended June 30, 2010 compared to $90,327 for the same period in 2009. The Company has expensed $31,596 for the vesting period of the Common Stock Options issued during the three months ended June 30, 2010 for options granted whose vesting period is between the date of grant and three, four and five years. The Company renewed 12,555,714 common stock options that expired on April 5, 2010. The new grants of stock option were issued on April 19, 2010 exercisable at CA$0.035 per share for a period of five years from the date of issuance with immediate vesting, which were issued to (i) Director of the Company (10,155,714 options) and (ii) employees (2,400,000 options). These options were fair valued at $376,471, using the Black –Scholes valuation model, assuming a risk-free rate return of 2.54%, no dividend and volatility factor of 132% and expensed as stock-based compensation. In addition, 16,000,000 of new options were issued on April 19, 2010 exercisable at CA$0.035 per share for a period of five years from the date of issuance, which were issued to: (i) Director of the Company (13,500,000 options); (ii) Chief Financial Officer (1,000,000) and (iii) employees (1,500,000 options). These options were fair valued at $479,744, using the Black –Scholes valuation model, assuming a risk-free rate of return of 2.54%, no dividend, and volatility factor of 132% and expensed as stock-based compensation. Also on April 19, 2010 the Board of Directors authorized the issuance of 500,000 bonus shares to acquire 500,000 common shares to an employee of the Company. These shares were valued at CA$0 .030 per share, the closing price on the TSX on May 11, 2010, for a fair value of $14,713. The Company has expensed $90,327 for the vesting period of the common stock options issued during the three months ended June 30, 2009 for options granted whose vesting period is between the date of grant and three, four and five years

The foreign exchange loss was $25,170 for the three months ended June 30, 2010 compared to a gain of $265,000 in the same period of 2009. This decrease of $290,170 was due to the decrease of the US dollar versus the Chilean peso which resulted in a decrease of $158,741 related to the recoverable taxes which are in Chilean pesos. Other decrease was account payables and provisions totaling a decrease of $48,184. Other balance sheet items were impacted negatively in the amount of $83.245.

Interest expense was $103,403 for the three months ended June 30, 2010 compared to $204,000 in the same period of 2009. The decrease of $100,597 was due to a reduction of $60,873 of debenture interest, when the holders, Mr. David R.S. Thomson and Mr. Mario

Hernandez both Executive Vice President and directors of the Company elected to convert the $1,600,000 Convertible Secured Debenture. The OPIC default interest charge was reversed in the amount of $41,183, the amortization of OPIC expenses and interest of the principal were reduced by $18,712. when Pimenton began to repay the principal and interest quarterly on June 15, 2009. This was offset by an increase in leasing interest cost and other interest cost by $20,171.

Development costs were $107,500 for the three months ended June 30, 2010 compared to $nil in the same period of 2009. In October 2009 the Company entered into services contracts with each Companía Minera Auromín Ltda. a company controlled by Mr. David Thomson, Executive Vice President of Exploration and with Minera Chañar Blanco S.A., a company controlled by Mr. Mario Hernández, Executive Vice President of Claims and Land Administration. Both are also directors of the Company. The services to be provided by Companía Minera Auromín Ltda. include: seeking new mining projects; perform geological studies and design drill programs for the Company on exploration projects; conduct preliminary design of the mining plans for designated projects and provide other services related to the explorations and development of mining projects. The services to be provided by Minera Chañar Blanco S.A. include maintain title and ownership of mining properties acquired by the Company; acquire water rights or request concessions of water rights on the properties acquired by the Company and negotiate the acquisition of new mining properties for the Company.

The Company has taken the decision to expense its mining property costs (claims cost) in addition to exploration costs until it deems the project to have definitive resource potential as defined by National Instrument 43-101. Exploration and mining properties written-off during the period ended June 30, 2010 totaled $1,132,734 were as follows: Catedral $122,053; La Bella $714,036; Cal Norte $4,012; Tordillo $272,190; and Bandurrias $18,288. The balance of $2,155 represents a write-off of recoverable taxes that had been capitalized against these properties. Exploration costs written-off during the three months ended June 30, 2009 totaled $102,000.

Other income was $169,291 in the three months ended June 30, 2010 compared to $549,000 in the same period of 2009. On June 29, 2010 the holders, Mr. David R.S. Thomson and Mr. Mario Hernández both Executive Vice President and directors of the Company elected to convert the $1,430,505 convertible unsecured debenture A which was issued to them in April 21, 2010 and was due to mature on April 21, 2015 into 32,586,889 Common Shares. These shares were value at $928,489 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a gain of $523,544 of which $222,539 was recorded as other income for the three months ended June 30, 2010 and $301,005 was recorded as contributed surplus. Also on June 29, 2010, Mr. David R.S. Thomson and Mr. Mario Hernández converted $571,667 convertible unsecured debenture B which was issued to them in April 21, 2010 and was due to mature on April 21, 2015 into 14,650,575 Common Shares and one-half warrants. Net proceeds of the placement were $356,132 of which $215,535 was assigned to the warrants. The exercised shares were value at $417,435 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a loss of $55,893 of which $53,320 was recorded as a reduction in other income for the

three months ended June 30, 2010 and $2,573 was recorded as contributed surplus. On June 9, 2009 the holders, Mr. David R.S. Thomson and Mr. Mario Hernández both Executive Vice Presidents and directors of the Company elected to convert the $1,600,000 convertible secured debenture which were issued to them in 2006 and were due to mature on March 31, 2013. these debenture were converted into 28,108,288 shares at a conversion price $0.0569 per shares. These shares were value at $903,662 using the TSX closing price of CA$0.035 on June 9, 2009 resulting in a gain of $1,024,658, of which $392,276 was recorded as other income for the three months ended June 30, 2009 and $632,382 was recorded as a deficit. Also on June 9, 2009, Mr. David R.S. Thomson and Mr. Mario Hernández converted $504,022 of leases secured by certain mining equipment into 12,261,795 Common Shares of the Company. The shares were value at $0.035 using the TSX closing price per share on March 9, 2009 and resulted in a gain of $156,926, which was recorded as other income for the three months ended June 30, 2009.

Other expenses was $nil in the three months period ended June 30, 2010 compared to $17,000 in the same period of 2009. The Company compensated the Executive Vice-President and Director of Explorations, who is also director of the Company for guaranteeing the payment of a lease agreement with a local Chilean bank with the conversion of the lease debenture totaling $59,543. This was offset by anticipated lease payments with the convertible debenture generating a gain of $42,151.

Results of operations for the nine months ended June 30, 2010, compared to the nine months ended June 30, 2009.

The Company reported net loss of $4,331,000 for the nine months period ended June 30, 2010 compared to income of $1,389,000 for the nine months ended June 30, 2009. A part of this loss was caused by the Company's decision during the nine month ended June, 2010 to write down its mining property costs in addition to its exploration cost which totaled $1,208,803 (see detail below).

For the nine months period ended June 30, 2010, revenue from gold sales was $6,243,875 (2009 - $7,589,000) and from copper and silver sales were $669,658 (2009 - $938,000). The mine was declared to be in commercial production at 91 tons per day effective October 1, 2008.

Operating expenses were $6,665,000 in the nine months ended June 30, 2010 compared to $4,851,000 for the same period in 2009. The increase during the nine months period ended June 30, 2010 consisted of mine expenses $1,429,254; plant operations $22,230; maintenance and operation of road $229,481; management $13,644 camp $379,479; health clinic & safety and others $97.395. This was offset by a reduction in: (i) royalties $98,627; (ii) smelting, refining and metallurgical charges of $219,822 and (iii) transportation of concentrate $39,034.

The estimated cash flow of 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 June 30,

2010. 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 nine months period ended June 30, 2010 was $111,201 (2009 - $103,443)

Amortization expenses were $403,729 in the nine months ended June 30, 2010 (2009 - $571,081) due to the start of commercial production at Pimenton on October 1, 2008. Amortization expenses are amortized into operations using the unit-of production method (UOP) over the estimated useful lives of the related ore reserves. Depreciation expenses for the nine months ended June 30, 2010 were $676,269 compared to $530,691 for the same period in 2009. The increase of $145,578 was due to mining equipment purchases.

General and administrative costs increased by $361,000 for the nine months ended June 30, 2010 as compared to the same period in 2009. Salaries increased by $183,565, professional fees increase by $277,546 of which $182,755 related to legal fees; $96,013 for accounting; other services $ 8,778. This was offset by a reduction in $10,000 for metallurgical service. In additions for the nine months ended June 30, 2010 the company incurred $12,780 increase in utilities; $14,049 increase in miscellaneous other expenses. Shareholders expenses decreased by $21,172; travel decrease by $30,038 overhead decrease by $32,385; transport by $43,345.

Stock based compensation was $1,040,627 during the nine month period ended June 30, 2010 compared to $192,000 for the same period in 2009. The Company has expensed $169,699 for the vesting period of the Common Stock Options issued during the nine months ended June 30, 2010 for Options granted whose vesting period is between the date of grant and three, four and five years. The Company renewed 12,555,714 common stock options that expired on April 5, 2010. The new grants of Stock Option were issued on April 19, 2010 exercisable at CA$0.035 per share for a period of five years from the date of issuance with immediate vesting, which were issued to (i) Director of the Company (10,155,714 options) and (ii) Employees (2,400,000 options). These options were fair valued at $376,471, using the Black –Scholes valuation model, assuming a risk-free rate of return of 2.54%, no dividend and volatility factor of 132% and expensed as stock-based compensation. In addition, 16,000,000 of new options were issued on April 19, 2010 exercisable at CA$0.035 per share for a period of five years from the date of issuance, which were issued to: (i) Director of the Company (13,500,000 options); (ii) Chief Financial Officer (1,000,000) and (iii) employees (1,500,000 options). These options were fair valued at $479,744, using the Black –Scholes valuation model, assuming a risks-free rate of 2.54%, no dividend, and volatility factor of 132% and expensed as stock-based compensation. Also on April 19, 2010 the Board of Directors authorized the issuance of 500,000 bonus shares to acquire 500,000 common shares to an employee of the Company. These shares were valued at CA$0 .030 per share, the closing price on the TSX on May 11, 2010, for a fair value of $14,713. The Company has expensed $192,056 for the vesting period of the Common Stock Options issued during the nine months ended June 30, 2009 for Options granted whose vesting period is between the date of grant and three, four and five years.

Warrant revaluation expenses were $8,066 in the nine months period ended June 30, 2010 compared to $nil for the same period in 2009. On December 1, 2009 the TSX agreed to further extend the expiration date on the 46,187,485 outstanding common share purchase warrants (the "Warrants") and 5,616,936 outstanding common share purchase warrants (the "Broker Warrants") which were to expire on December 17, 2009, all of which were issued in connection with a private placement on December 17, 2007. The fair value of these modified warrants and broker warrants of $8,066, in excess of the fair value of the original warrants immediately prior to the modification date of $nil, was charged to expense. The fair values of the warrants were assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 1.28%, no dividend and a volatility factor of 142%. These warrants were further extended to December 17, 2010.

The foreign exchange gain was $122,749, for the nine months ended June 30, 2010 compared to a gain of $217,308 in the same period of 2009. This decrease of $94,559 was due to the increase of the US dollar versus Chilean peso.

Interest expense was $247,831 in the nine months ended June 30, 2010 compared to $618,373 in the same period of 2009. The decrease of $370,542 was due to a reduction of $221,395 debenture interest, when the holders, Mr. David R.S. Thomson and Mr. Mario Hernandez both Executive Vice President and directors of the Company elected to convert the $1,600,000 Convertible Secured Debenture. The OPIC default interest charge was reversed in the amount of $122,563, the amortization of OPIC expenses and interests of the principal were reduced by $52,192. The outstanding principal balance on the OPIC loan as of June 11, 2009 was $1,555,555, when Pimenton began to repay the principal and interest quarterly on June 15, 2009. This was offset by an increase in leasing interest cost and others interest cost of $25,608.

Other income was $554,932 in the nine months ended June 30, 2010 compared to $602,000 in the same period of 2009. The Company reached settlement with the Chilean IRS in March 2010 to pay $172,331 of taxes versus the original claim by the Chilean IRS of $554,182, the difference of $381,851 included interest and penalties, which was recorded as other income. On June 29, 2010 the holders, Mr. David R.S. Thomson and Mr. Mario Hernández both Executive Vice Presidents and directors of the Company elected to convert the $1,430,505 convertible unsecured debenture A which were issued to them in April 21, 2010 and were due to mature on April 21, 2015 into 32,586,889 Common Shares. These shares were value at $928,489 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a gain of $523,544 of which $222,539 was recorded as other income for the three months ended June 30, 2010 and $301,005 was recorded as contributed surplus. Also on June 29, 2010, Mr. David R.S. Thomson and Mr. Mario Hernández converted $571,667 convertible unsecured debenture B which was issued to them in April 21, 2010 and was due to mature on April 21, 2015 into 14,650,575 Common Shares and one-half warrants. Net proceeds of the placement were $356,132 of which $215,535 was assigned to the warrants The exercised shares were value at $417,435 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a loss of $55,893 of which $53,320 were recorded deducting other income for the three months ended June 30, 2010 and $2,573 was recorded as contributed surplus. Other

income also included $3,862 for scrap sale. Other income was $602,000 in the nine months ended June 30, 2009. On June 9, 2009 the holders, Mr. David R.S. Thomson and Mr. Mario Hernández both Executive Vice President and directors of the Company elected to convert the $1,600,000 convertible secured debenture which was issued to them in 2006 and was due to mature on March 31, 2013. These debenture were converted into 28,108,288 Common Shares at a conversion price $0.0569 per shares. These shares were value at $903,662 using the TSX closing price of CA$0.035 on June 9, 2009 resulting in a gain of $1,024,658, of which $392,276 was recorded as other income for the three months ended June 30, 2009 and $632,382 was recorded as deficit. Also on June 9, 2009, Mr. David R.S. Thomson and Mr. Mario Hernández converted $504,022 of convertible secured leases secured by certain mining equipment into 12,261,795 Common Shares of the Company. The shares were value at $0.035 using the TSX closing price as of March 9, 2009 and resulted in a gain of $156,926, which was recorded as other income for the three months ended June 30, 2009. Other income was $46,802 for mining claims recovered in November 2008. Other income was $6,143.

Development costs were $307,500 in the nine months ended June 30, 2010 compared to $nil in the same period of 2009. In October 2009 the Company entered into services contracts with each Companía Minera Auromín Ltda. a company controlled by Mr. David Thomson, Executive Vice President of Exploration and with Minera Chañar Blanco S.A., a company controlled by Mr. Mario Hernández, Executive Vice President of Claims and Land Administration. Both are also directors of the Company. The services to be provided by Companía Minera Auromín Ltda. include: seeking new mining projects; perform geological studies and design drill programs for the Company on exploration projects; conduct preliminary design of the mining plans for designated projects and provide other services related to the explorations and development of mining projects. The services to be provided by Minera Chañar Blanco S.A. include maintain title and ownership of mining properties acquired by the Company; acquire water rights or request concessions of water rights on the properties acquired by the Company and negotiate the acquisition of new mining properties for the Company.

The Company has taken the decision to expense its mining properties (claim cost) exploration costs until it deems the project to have definitive resource potential as defined by National Instrument 43-101. Exploration and mining properties written-off during the period ended June 30, 2010 totaled $1,208,803, and were as follows: Catedral $167,682; La Bella $734,179; Cal Norte $4,012; Tordillo $272,190; and Bandurrias $18,288. The balance of $12,452 represents a write-off of recoverable taxes that had been capitalized against these properties. Exploration costs written-off during the nine months ended June 30, 2009 totaled $163,000.

Other expenses were $nil in the nine months period ended June 30, 2010 compared to $37,000 in the same period of 2009. The Company compensated to the Executive Vice-President and Director of explorations, who is also director of the Company for guaranteeing the payment of a lease agreement with a local Chilean bank with the conversion of the lease debenture totaling $59,543. This was offset by anticipated lease

payments with the convertible debenture generating a gain of $42,151. Other expense of $20,332 was due for interest and readjustment of taxes payable (IVA).

Summary of Quarterly Results

	June 30, 2010	**March 31, 2010**	**December 31, 2009**	**September 30, 2009**
Sales	2,714	2,037	2,163	1,789
Net income (loss) before extraordinary items	(1,731)	(748)	(889)	(1,201)
Per share	(0.0021)	(0.0009)	(0.0009)	(0.0015)
Per share diluted	(0.0017)	(0.0008)	(0.0008)	(0.0012)
Net income (loss) after extraordinary items	(2,803)	(508)	(1,020)	(1,285)
Per share	(0.003)	(0.0006)	(0.0006)	(0.0016)
Per share diluted	(0.003)	(0.001)	(0.001)	(0.001)

	June 30, 2009	**March 31, 2009**	**December 31, 2008**	**September 30, 2008**
Sales	2,890	3,813	1,824	Nil
Net income (loss) before extraordinary items	204	1,191	(392)	(291)
Per share	0.0003	0.0016	(0.0005)	(0.0004)
Per share diluted	0.0002	0.0012	(0.0004)	(0.0003)
Net income (loss) after extraordinary items	651	1,139	(401)	(5,192)
Per share	0.0008	0.0015	(0.0005)	(0.0071)
Per share diluted	0.001	0.0011	(0.0004)	(0.0051)

Non-GAAP Financial Measures

This MD&A refers to cash cost per tonne of pre processed and cash cost per ounce of gold in concentrate produced because certain investors may use this information to assess the Company's performance and also determine the Company's ability to generate cash flow for investing activities. These measurements capture all of the important components of the Company's production and related costs. In addition, management utilizes these metrics as an important management tool to monitor cost performance of

the Company's operations. Theses measurements have no standardized meaning under Canadian GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. These measurements are intended to provide additional information and should net be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP.

The following table provides, for the periods indicated, a reconciliation of the Company's cash cost measures to its Canadian GAAP cost sales:

Reconciliation of Non-GAAP Measures to Canadian GAAP Cost of Sales:

For the nine months ended June 30,	2010	2009
Gold ounces sold	5,547	9,082
Cost of sales	7,801	6,146
Add (deduct):		
Amortization and depreciation	(1,074)	(1,100)
Remediation and reclamation	(111)	(103)
Total cash cost of production before by-product credits	6,616	4,943
Copper and Silver – by product credits	(641)	(842)
Total cash cost of production after by-product credits	5,975	4,101
Cash cost per ounce	**$1,077.18**	**$451.54**

The Company declared the Pimenton 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 an average of 150 tons per day in 2010 with further increase to 200 tons per day in 2011. 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	%
Starting tones per day year 1	100	Tpd
Tones per day year 2	200	Tpd
Price per Ounce Gold	$1,000	

Price per pound Copper	$2.8 0	
Exchange rate US$	500	CH$
Plant combined recovery	90%	
Loan Interest rate	8.50%	
Price per liter Diesel	470	CH$
Price per liter Gasoline	500	CH$

ALL IRR% ARE FOR ENTIRE INVESTMENT
100 TPD to 200tpd USING PRICES OF $1,000 gold and $2.8Copper

Grade Sensitivity. Projects from a low of 8g/t to 16 g/t Au head grade through plant.

Au g/t	Au%	Op.Cost/Oz	IRR%
10	0.7	$458	76%
12	1.0	$391	95%
14	1.2	$349	110%
16	1.4	$288	123%

Cost/Oz is cash cost per ounce at the mine

100 to 200 TPD
Recovery Sensibility. Projects from 5% to 10% less plant Recovery for gold.

% diff. Recovery	Op.Cost/Oz	IRR%
-10%	$371	90%
-5%	$355	102%
2%	$335	117%

Operating cost/Oz is cash cost per ounce at the mine

Tonnage Sensitivity from a low of at 100 to a high of 200 tpd.

Tons per day	Op.Cost/Oz	IRR%
70%	$533	54%
80%	$394	74%
90%	$365	93%
100%	$341	112%
110%	$321	132%

100 to 200 TPD
Price of Gold Sensitivity

Price per Ounce	IRR%
$500	9%
$600	36%
$700	56%
$800	75%
$900	93%

$1,000	111%
$1,100	129%
$1,200	147%

Price per liter of Diesel fuel	Cost per Ounce of Au produced	IRR%
CH$ 400	$340	112%
CH$ 500	$349	110%
CH$ 550	$353	108%

Liquidity and capital resources

Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**
	$	**$**	**$**	**$**
Purchase obligations	1,799,924	1,785,650	14,274	-
OPIC loan	302,180	302,180	-	-
Long-term amount due to related parties	3,434,394	-	3,434,394	-
Long-term debt	181,596	-	-	181,596
Capital leases	563,687	280,137	283,550	-
La Bella option payments (1)	8,840,039	1,060,805	3,123,480	4,655,754
Conditional loan agreement (2)	2,500,000	-	-	2,500,000
Catedral prospect	40,000	40,000	-	-
Total Contractual Obligations	**17,661,820**	**3,468,772**	**6,855,698**	**7,337,350**

Note (1). The Company is only obligated to make the option payments on either the inner circle or the outer circle as long as it desires to keep the underlying claims. The Company may drop either or both the inner or outer circle at any time and no further option payments are due to be paid. The agreement was made in UF in Chile. The UF is used in purchases and in agreements as a unit that is adjusted daily for inflation. For example, one UF is valued at $21.000 pesos tomorrow it could be valued at $21.001 pesos, with the additional one peso representing the upward adjustment due to inflation. The function of the UF is to protect the value in pesos of an investment or agreement from inflation. These payments for December, 2009 and January 2010 and in future years are base of the UF price at September 30, 2009.

Note (2). 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 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.

At June 30, 2010, cash was $763,000.

To preserve its cash position the Company has been, and plans to continue, concentrating its efforts on Pimenton and substantially defer expenditures on other projects.

The positive working capital of $1,386,000 at June 30, 2010 is expected to be further increased by revenues and operating profits from the Company's Pimenton gold mine. The Company plans to gradually increase production to 150 tons per day in the next twelve months with a further increase to 200 tons per day by mid 2011.

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 in the future. The Company has installed a gold table and gold furnace at a cost of approximately $160,000 which is expected to substantially increase the gold ounces per ton of Knelson concentrate. This purchase will facilitate operations in the future. 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 2010 to August 2010; dependant on the future price of diesel fuel; dependant on the price of the Chilean peso relative to the US Dollar and dependant on the ability of the Company to retain its current work force.

In May, 2010 the Company stared to produce its own gold doré at the mine site. In the same month the Company started to ship the gold doré bars directly to a gold refinery in Europe. The client pays for 90% of the value of gold shipment the week following delivery and the balance of the payment is made less than a month the day of receipt of the initial payment. The Company has sold approximately 85% to the gold refinery in Europe and 15% to Enami smelter its gold and copper concentrate. Enami is owed by the State of Chile through its ownership of CODELCO. Enami pays for approximately 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.

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 the Common 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.

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 Option Agreement

Under the terms of the Option Agreement on La Bella (formally "the inner circle"), modified on May 31, 2010, the Company has paid $351,538, $471,469 is due in December 2010, $530,402 in December 2011, $589,336 in December 2012 and $1,591,207 in December 2013. The Company will pay a 2 ½% Net Smelter Royalty to the optionee from production thereafter.

On the El Chilque prospect area (formally "the outer circle"), the Company paid $228,198, deferred to January 26, 2010 due to access problems to the prospect and future payments have been deferred by one month to $589,336 in January 2011, $825,070 in January 2012, $1,178,672 in January 2013 and $3,064,547 in January 2014. The Company has an obligation to pay a 2½% net smelter royalty to the optionee of the outer circle from production thereafter.

The agreement was made in UF in Chile. The UF is used in purchases and in agreements as a unit that is adjusted daily for inflation. For example, one UF is valued at $21.000 pesos tomorrow it could be valued at $21.001 pesos, with the additional one peso representing the upward adjustment due to inflation. The function of the UF is to protect the value in pesos of an investment or agreement from inflation. These payments for December, 2009 and January 2010 and in future years are base of the UF price at September 30, 2009.

In addition, 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 on the inner and outer circle.

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 the Chief Executive Officer of the Company, who is also a director of the Company (the "CEO") billed the Company $22,066 in the period ended June 30, 2010 (2009 - $54,450) for the provision of office space and services used by the Company. Receivable from an officer and director of the Company of $184,763 for the nine months ended June 30, 2010 (2009 - $212,860) is the net amount of non-interest-bearing note receivable compensations and advances to the CEO. The note is due on June 30, 2010 and is collateralized by 6,532,000 Common Shares owned by this officer and director.

A company controlled by the current Chief Financial Officer of the Company billed the Company $36,066 for accounting and administration services rendered in the period

ended June 30,2010 31, 2010 (2009 - $25,569). Amounts due to related parties include payables to this officer of $18,907 for such services at June 30, 2010 (2009 - $6,586).

In June 2010, additional working capital of $819,833, in the form of an advance was provided by the executive-vice-president of claims and land management and the executive-vice-president of exploration, both directors of the Company.

During 2007, the Executive-Vice President-Director of Claims and Administration, 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 $974,918 at June 30, 2010 (2009 - $937.439) and interest expense was $36,342 in 2010 (2009 - $36,224). Amounts due to related parties include $24,017 (2009- $230,151) for interest and $137,362 for royalties as at June 30, 2010 (2009 - $350,020).

Amounts due to related parties include $24,173 and $231,697 as at June 30, 2010 and 2009, 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 $968,645 and $937,439 as at June 30, 2010 and 2009, respectively, and interest expense was $36,342 for the nine months ended June 30, 2010 (2009 – $36,224). In addition, amounts due to related parties include $137,362 and $350,020 as at June 30, 2010 and 2009, respectively, for royalties due to this officer and director who is the owner of a net smelter royalty on the Pimenton gold mine. In addition, amounts due to related parties include a cash advance of $325,236 at June 30, 2010 (2009 - $8,909).

On October 19, 2009 the Chief Executive Officer, who is also a Director of the Company, entered into an employment agreement. As Chief Executive Officer, he will report to the board of Directors of the Company. Mr Hougthon was granted a two year contract which will be renewed for an additional two years period at the end of each year. Under the term of the contract, Mr. Houghton is to be paid $110,000 per year. However, until the loan with Overseas Private Investment Companys is repaid, $7,000 per month will be paid in cash and $2,166 per month will be deferred. Mr. Houghton at his option may request that all or a part of his salary be paid in common stock of the Company. Any stock issued would be subject to shareholders and regulatory approval. As of June 30, 2010 amount due to related parties include $19,500.

On October 19, 2009 a Company owned by David R.S. Thomson, Executive-Vice President-Director of Exploration of the Company, Minera Auromin Ltda, entered into a services contract for a period of two years, which will be renewed for an additional two year periods at the end of each year. Under the term of the contract, Minera Auromin Ltda. is to be paid, $300,000 per year. However, until the loan with Overseas Private Investment Corporation (OPIC) has been repaid, $17,000 per month will be paid in cash and the balance of $8,000 per month will be deferred. Minera Auromin Ltda., at it sole option, may request that all or part of the fees to be paid in common stock of the Company. Any stock issued would be subject to shareholders and regulatory approval. Currently, the $300,000 due under the service contract is being deferred. As of June 30, 2010 amount due to related parties include $225,000.

On October 19, 2009 a Company owned by Mario Hernández, Executive-Vice President-Director of Claims and Administration of the Company, Compañía Minera Chañar Blanco S.A., entered into a services contract for a period of two years, which will be renewed for an additional two year period at the end of each year. Under the term of the contract, Compañía Minera Chañar Blanco S.A is to be paid $110,000 per year. However, until the loan that the Overseas Private Investment Corporation (OPIC) has been fully paid, $7,000 per month will be paid in cash and the balance of $2,166 per month will be deferred. Compañía Minera Chañar Blanco S.A, at it sole option, may request that all or part of the fees are paid in common stock of the Company. Any stock issued would be subject to shareholders and regulatory approval. Currently, the $110,000 due under the service contract is being deferred. As of June 30, 2010 amount due to related parties include $82,500.

On June 9, 2009, 2,469,571 Common Shares valued at CA$0.035 were issued to two officers (Executive-Vice President, Claims and Land Management and Executive-Vice-President and Director of the Company Exploration) who are also Directors and were issued in lieu of interest payments, due for the period of March 31, 2008 to March 31, 2009 on the US$1,600,000 Convertible Debenture issued to it in 2006. Interest expense was $47,055 for the periods ended June 30, 2009. Amounts due to related parties include payables to these officers of $9,095 as at June 30, 2009 for interest on such debentures.

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.

In 2001, the Board of Directors and Compensation Committee approved the granting of a 3.2% net smelter royalty interest on Tordillo, a 2.5% net smelter royalty interest on both the inner circle and out circle of claims on La Bella and a 3.2% net smelter royalty on Bandurria. The CEO, the Executive-Vice President-Director of Exploration and the Executive Vice President and Director of claims and Land Administration who are also directors of the Company share in these net smelter royalties. To date no royalties have been paid on these properties.

The former Chief Financial Officer (the "CFO") 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 continued to be paid at the rate of $5,000 per month until February 28, 2009. Beginning in March, 2009 he was paid $12,500 per month until the net balance was paid. Effective June 26, 2009 the former Chief Financial Officer was paid in full.

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 Resource estimate of the Pimenton mine in December 2009. This report is filed on SEDAR at www.sedar.com.

Outlook

Risk 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 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 foreign 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. A drop in the price of gold, copper, limestone and lime could adversely affect the Company's financial condition, results of operations and cash flows. Lower gold, copper, limestone and lime 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 profitability 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 is currently pursuing insurance for business interruptions and insurance on its camp, plant, assay laboratory, fuel storage and garage facilities at Pimenton. The Company currently does not have these insurance policies.

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 Pimenton 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 which will be dated prior to December 29, 2009. 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.

Accounting Policies

To discharge its responsibilities for financial reporting and for safeguarding of assets, managements 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.

A summary of the significant accounting policies are set out below:

Principles of consolidation

These consolidated financial statements include the accounts of South American Gold and Copper Company Limited (the Company or SAGC) and its subsidiaries:

South American Gold and Copper Bermuda Ltd. (Bermuda)
SAGC Cathedral Limited (Cathedral)
SAGC Management, Inc. (Management)
SAGC Pimenton Limited
Compañía Minera Til Til Limitada (Til Til)
Compañía Minera Pimenton (Pimenton)
Compañía Minera Vizcachas (Vizcachas)
Compañía Minera Catedral (Catedral)
Compañía Cal Norte (Cal Norte)
Compañía Minera Tordillo Limitada
Minera Bandurria SAGC Limitada
Compañía Minera La Bella SAGC Limitada

All inter-company transactions and balances have been eliminated upon consolidation.

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.

Use of estimates

Generally accepted accounting principles require management to make assumptions and estimated that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimated.
Significant estimated used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable, the estimated net realizable value of inventories, any asset retirement obligation, stock–based compensation and the provision for income taxes and composition of future income tax assets and liabilities.

Cash and restricted cash

Cash and restricted cash consist of cash. The restricted cash components are presented separately on the consolidated balance sheets. The current portion of restricted cash is pledged as security for principal and interest payments due within the year.

Accounts receivables

Accounts receivables include the provisional invoicing of the sale of concentrates. These invoices are based on the Company's weights and assays, and are subject to review and final agreement by the customer. Changes between the prices recorded upon recognition of revenue and final price due to fluctuation in price of gold results in the existence of an embedded derivative in the receivable balances. This embedded derivative is recorded at fair value, with changes in fair value classified as a component of revenue.

Mining properties, plant and equipment

Expenditures for facilities and equipment and expenditures that extend the useful lives of facilities and equipment are capitalized at cost and are amortized over their estimated useful lives, which do not exceed the estimated useful mine life, based on "proven and probable" mineral reserves and "mineral measured resources".

Expenditures for the continued development of the property are capitalized as incurred and are amortized using the unit of production method over the estimated useful life of the mine based upon proven and probable reserves and mineral measured resources. These costs include building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

An impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds the estimated future undiscounted cash flows relating to the mining properties, plant and equipment. Such impairment loss recognized is calculated as the excess of the carrying amount over the fair value of the mining properties, plant and equipment.

Exploration and development costs

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 on the consolidated balance sheets and are amortized into operations using the units of production method, based on proven and probable mineral reserves and mineral resources.

The Company regularly assesses the exploration and development costs for impairment. An impairment occurs when at least one of the following conditions are met:

Producing properties

- The carrying amount of the capitalized costs exceed the related undiscounted net cash flows of proven and probable reserves and measured resources;

Exploration properties

- exploration activities have ceased;
- exploration results are not promising such that exploration will not be planned for the foreseeable future;
- lease ownership rights expire; or
- sufficient funding is not expected to be available to complete the exploration program; then the carrying amount will be written down to its fair value and charged to operations.

Revenue recognition

Revenue from the sale of concentrates is recognized following the transfer of title and risk of ownership and the determination in accordance with contractual arrangements with customers. Risk and title is transferred when the concentrate is delivered to the premises of ENAMI, the Chilean national mining company. Generally, the final settlement price is computed with reference to the average quoted metal prices for a specified period of time, normally one month subsequent to shipment to the customer. Revenues are recognized when the concentrate material is delivered to ENAMI based on the currently prevailing metals prices, quantities of concentrate delivered and provisional assays as agreed between the company and ENAMI for each shipment. Concentrate sales are subject to adjustment on final determination of weights and assays, revenues are adjusted when these final determinations are known. By-products such as copper and silver are contained within concentrates shipped to ENAMI and revenue from these by-products are recognized on the same criterion as those used for gold revenues.

Stock-based compensation

The Company has a share option plan, as discussed in note 9(c). Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Consideration paid by optionees on exercise of an option is recorded in share capital. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date. The share price at the grant date is considered to be equal to the closing price of the Company's stock on the TSX on the business day preceding the grant date.

Income taxes

The asset and liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are determined, based on differences between the financial reporting and income tax bases of assets and liabilities, and are measured using the income tax rates substantively enacted at the consolidated balance sheet dates that are expected to apply when the assets are realized or the liabilities are settled. Net future income tax assets are offset by valuation allowances to the extent that they are considered not more likely than not to be realized.

Earnings and loss per share (EPS)

Basic EPS is computed by dividing the income or loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares when the conditions necessary for issuance have been met. Diluted EPS is calculated in a manner similar to basic EPS, except that the weighted average number of shares outstanding is increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants on the as-if converted method for convertible securities.

Reclamation and remediation

Asset retirement obligations are recorded in mining properties, plant and equipment and in liabilities at fair value, when incurred. The liability is accreted over time through periodic charges to income. The amount of the liability is subject to remeasurement at each reporting period. These obligations are associated with long-lived assets for which there is a legal obligation to settle under existing or enacting laws, statutes or contracts. The related assets are amortized using the unit of production method.

Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate on which the estimated cash flows have been discounted. The actual asset retirement obligation and closure costs may differ significantly, based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

Financial instruments recognition, measurement, disclosure and presentation

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.

Hedging

The Company currently does not hold any financial instruments designated for hedge accounting.

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 of the Company after October 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.

Goodwill and intangible assets

The Canadian Institute of Chartered Accountants issued the new Handbook Section 3064, “Goodwill and Intangible Assets”, which replaced 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 its deferred charges meet the criteria for deferral with the adoption of CICA Handbook Section 3064 for the fiscal year beginning October 1, 2008.

Mining exploration costs

In March 2009, the CICA approved EIC 174,”Mining Exploration Costs”. This guidance clarified when exploration costs related to mineral properties may be capitalized and, if exploration costs are initially capitalized, when should impairment be assessed to determine whether a write-down is required. The guidance further clarified what conditions indicate impairment. This guidance is

applicable to financial statements filed after March 27, 2009. The Company has considered this guidance in assessing the value of its mineral properties at June 30, 2010.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This guidance clarified that an entity's own credit risk and the credit of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivatives for the nine months ended June 30, 2010. The Company has performed an assessment as of June 30, 2010 and believes there to be no impact on its financial statements.

Future changes in accounting policies

Business Combinations/Consolidated Financial Statements/Non-Controlling Interest

In January 2009, the CICA adopted sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements" and 1602, "Non Controlling Interest" which superseded current sections 1581, "Business Combinations" and 1600, "Consolidated Financial Statements". These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new section concurrently. These new sections were created to converge Canadian GAAP to IFRS. The Company will assess the impact of this section prior to implementation.

International Financial Reporting Standards

The Accounting Standards Board confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises for the financial periods beginning on or after January 1, 2011, including comparative figures for the prior year.

SAGC will transition to IFRS effective October 1, 2011 and intends to issue its first interim financial statements under IFRS for the three month period ending December 31, 2011 and a complete set of financial statements under IFRS for the year ending September 30, 2012.

SAGC is currently undertaking a process to identify differences between Canadian GAAP and IFRS relevant to SAGC and evaluate the impact of the required changes on existing accounting systems, business processes, and requirements for personnel training and development.

The Potentially High Impact Areas are:

1.1. First Time Adoption of IFRS (IFRS 1)

- IFRS 1 provides detailed guidance on the specific disclosures required in the first set of IFRS financial statements. It also provides exemptions, in a number of areas, from the retrospective application of some standards.

- SAGC has to carefully assess the exemptions provided by IFRS 1 to ensure that the right decisions are made on transition.
- Additionally, SAGC has to ensure that it has the right systems in place to be able to collect all the data and information required for disclosure in the first IFRS financial statements.

1.2. Impairments

- Develop an accounting policy for impairment testing, guidelines for determination of fair value less cost to sell and value in use measures.
- Impairment testing is a one-step test under IAS 36 rather than a two-step test under Canadian GAAP, which may increase the frequency of the recognition of impairment charges.
- Under IAS 36, impairment losses are measured differently, i.e. as the excess of carrying value and the recoverable amount, which is the higher of fair value less cost to sell and value in use.
- SAGC will need to review its asset groupings under the definition of cash-generating unit to ensure that the level of review for impairment testing purposes is still appropriate.
- The criteria for recognizing impairments are similar to Canadian GAAP; however, the reversal of impairments (other than goodwill) is not permitted under Canadian GAAP, but is required under IFRS, should events and circumstances exist that may indicate reversal of impairment tests.
- In order to be able to reverse impairments, when conditions reverse, SAGC will need to keep detailed accounting records of the depreciated historic cost for impaired assets as the reversal of impairment is limited to this amount.
- SAGC will also need to assess whether any reversal of past impairments is required on transition to IFRS.

1.3. Asset Retirement Obligations

- SAGC needs to consider whether any constructive obligations exist, which could give rise to additional Asset Retirement Obligations liabilities under IFRS.
- Provisions will need to be reviewed at each reporting date, using the pre-tax discount rate prevailing on the balance sheet date.
- IFRS requires more disclosure than existing Canadian GAAP.

1.4. Presentation of Financial Statements

- SAGC will need to ensure that the presentation of their IFRS financial statements is consistent with the requirements of IAS 1.

- As part of the conversion to IFRS, the Company will need to consider whether they have the right systems in place to capture the information required for these additional disclosures

- Management will need to familiarize themselves with the layout and disclosure requirements of IFRS statements. There are several examples in the public domain of IFRS financial statements for mining companies, such as Xstrata Plc and Rio Tinto Plc, which could provide SAGC with examples of the required disclosures.

1.5. Functional Currency Determination (Foreign Exchange

- IAS 21 provides specific indicators in determining an entity's functional currency.

- SAGC has to assess the functional currency of its operating entities based on these indicators.

- IFRS requires more disclosure than the existing Canadian GAAP regarding functional currency determinations.

1.6. Stock-based Compensation

- On transition to IFRS, SAGC will need to review the terms, of its stock-based compensation, in order to ensure that the awards are correctly accounted for under IFRS.

- SAGC currently issues equity instruments to directors, officers, employees, and certain consultants. It will therefore have to consider whether the consultants meet the definition of employees, under IFRS and apply the appropriate treatment to these awards.

- The requirement to re-measure the fair value of settled awards and estimate forfeitures may increase the implementation effort.

- SAGC will have to estimate a forfeiture rate under IFRS

1.7. Property, Plant & Equipment (PP&E)

- The components of the capitalized PP&E costs may need to be examined to determine whether or not they are capitalizable under IFRS. SAGC needs information in sufficient detail for this assessment.

- The separate measurement of the significant individual components of PP&E along with their differing useful lives may be a complex task, which will require modification of existing fixed asset systems to track additional asset details.

- Overhaul and maintenance schedules can be used to help determine the specific useful lives of significant components within large items of PP&E.

- Defining reserves and resources and deciding which one is used for calculating depreciation cost will require significant technical expertise and judgment.

- IFRS has greater disclosure requirements than Canadian GAAP.

IFRS 1 Consideration:

- Electing to measure an item of PP&E at the date of transition at its fair value and use that fair value as its deemed cost, will require significant technical expertise, judgment, and resources to determine fair value.

1.8. Mineral Property and Exploration Costs

- SAGC will need to monitor the progress of developments in IFRS 6, regarding the capitalization of exploration and evaluation costs and the treatment of reserves and resources.

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 CEO and CFO, 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 its 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 CEO and the CFO, 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 CEO and the CFO 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 National 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 CEO and CFO, 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 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 CEO and the CFO, 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 CEO and the CFO 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)

	June 30, 2010 (Unaudited)	September 30, 2009
	$	$
Assets		
Current assets		
Cash and cash equivalents	763	855
Restricted cash	-	22
Receivable fron an officer and director	-	14
Receivables from Enami	190	335
Receivables	272	98
Recoverable taxes	1,967	2,125
Product and supplies, inventory	576	476
	3,768	3,925
Receivable from an officer and director	185	241
Mining properties, plant and equipment	17,226	17,242
Exploration properties	158	627
Total assets	21,337	22,035
Liabilities		
Current liabilities		
Short term lease	280	29
Current portion of long-term debt	302	933
Accounts payable and accrued liabilities	1,800	1,422
Taxes payable (VAT)	-	523
Amounts due to related parties	-	528
	2,382	3,435
Long-term debt	2,125	1,895
Long-term lease	284	22
Long-term amount due to related parties	1,491	780
Reclamation and remediation	2,106	1,995
Total liabilities	8,388	8,127
Shareholders' equity		
Share capital	72,278	70,919
Contributed surplus	4,360	3,145
Convertible subordinated debentures	253	-
Options	1,773	1,479
Warrants	1,705	1,454
Deficit and comprehensive loss	(67,420)	(63,089)
Total shareholders' equity	12,949	13,908
Total liabilities and shareholders' equity	21,337	22,035

Going concern and nature of operations (note 1)

Commitments (note 11)

Approved by the Board of Directors

(signed) Paul J. DesLauriers — Chairman

(signed) Stephen W. Houghton — Chief Executive Officer

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

South American Gold and Copper Company Limited

Consolidated Statements of Operations, Comprehensive Income (loss) and Deficit (Unaudited)

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

	Three Months Ended June 30, (Unaudited)		Nine Months Ended June 30, (Unaudited)	
	2010	**2009**	**2010**	**2009**
	$	**$**	$	$
Revenue				
Gold	2,514	2,455	6,244	7,589
Copper and silver	200	435	670	938
	2,714	2,890	6,914	8,527
Expenses				
Operating cost	2,504	1,925	6,665	4,851
Reclamation and remediation	38	35	111	103
Amortization and depreciation	405	350	1,080	1,102
General, sales and administrative	467	330	1,252	891
Stock-based compensation	903	90	1,041	192
Warrant revaluation	-	-	8	-
Foreign exchange	25	(265)	(123)	(217)
Interest	103	204	248	618
	4,445	2,669	10,282	7,540
Other income	(169)	(549)	(554)	(602)
Other expenses	-	17	-	37
Development costs	108	-	308	-
Writte off of explorations properties	1,133	102	1,209	163
Income (loss) and comprehensive income (loss) for period	(2,803)	651	(4,331)	1,389
Deficit- beginning of period	(64,617)	(63,087)	(63,089)	(63,825)
Gain on conversion of convertible secured debentures	-	632	-	632
Deficit- end of period	(67,420)	(61,804)	(67,420)	(61,804)
Basic and diluted loss per share	(0.001)	0.001	(0.002)	0.001

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 June 30,	
	2010	2009	2010	2009
Operating Activities	$	$	$	$
Net income (loss) for the period	(2,803)	651	(4,331)	1,389
Non-cash items				
Amortization	405	350	1,080	1,102
Accretion of interest on long-term debt	42	226	187	467
Write off of exploration properties	1,133	102	1,209	163
Foreign exchange	25	(265)	(123)	(217)
Mine clousere	38	35	111	103
Provision and withholding	108	-	308	-
Royalties	157	164	398	497
Non-cash non-employee share compensation	-	-	-	13
Stock based compensation	903	90	1,041	179
Warrant revaluation	-	-	8	-
Other expenses	-	-	-	87
Other income	(169)	(549)	(551)	(602)
	(161)	804	(663)	3,181
Change in non-cash working capital relating to operations	479	580	746	279
	318	1,384	83	3,460
Investing Activities				
Explorations property	(45)	(110)	(61)	(128)
Mining properties, plant and equipment	(442)	(1,199)	(1,247)	(1,767)
Receivable from an officer and director	(3)	(26)	(10)	(115)
	(490)	(1,335)	(1,318)	(2,010)
Financing activities				
Shares issued	-	-	-	361
Repayment of debt	(348)	(311)	(678)	(311)
Long-term debt	330	-	630	-
Loan from related parties	818	-	1,390	-
Payment of capital lease	(58)	(8)	(223)	(24)
	742	(319)	1,119	26
Effect of foreign exchange on cash held in foreign currency	-	319	24	306
Increase (Decrease) in cash and cash equivalents during the period	570	49	(92)	1,782
Net cash and cash equivalents-beginning of period	193	1,886	855	153
Net cash and cash equivalents-end of period	763	1,935	763	1,935

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. 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, 2009. 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, 2009.

2. 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, 2009.

A summary of the significant accounting policies are set out below:

a) Principles of consolidation

These consolidated financial statements include the accounts of South American Gold and Copper Company Limited (the Company or SAGC) and its subsidiaries:

South American Gold and Copper Bermuda Ltd. (Bermuda)
SAGC Cathedral Limited (Cathedral)
SAGC Management, Inc. (Management)
SAGC Pimenton Limited
Compañía Minera Til Til Limitada (Til Til)
Compañía Minera Pimenton (Pimenton)
Compañía Minera Vizcachas (Vizcachas)
Compañía Minera Catedral (Catedral)
Compañía Cal Norte (Cal Norte)
Compañía Minera Tordillo Limitada
Minera Bandurria SAGC Limitada
Compañía Minera La Bella SAGC Limitada

All inter-company transactions and balances have been eliminated upon consolidation.

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b) **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.

c) **Use of estimates**

Generally accepted accounting principles require management to make assumptions and estimated that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimated.

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable, the estimated net realizable value of inventories, any asset retirement obligation, recoverability of mineral properties including exploration properties, stock–based compensation and the provision for income taxes and composition of future income tax assets and liabilities.

d) **Cash and restricted cash**

Cash and restricted cash consist of cash. The restricted cash components are presented separately on the consolidated balance sheets. The current portion of restricted cash is pledged as security for principal and interest payments due within the year.

e) **Inventory**

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.

f) **Accounts receivables**

Accounts receivables include the provisional invoicing of the sale of concentrates. These invoices are based on the Company's weights and assays, and are subject to review and final

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agreement by the customer. Changes between the prices recorded upon recognition of revenue and final price due to fluctuation in price of gold are taken to income.

g) **Mining properties, plant and equipment**

Expenditures for facilities and equipment and expenditures that extend the useful lives of facilities and equipment are capitalized at cost and are amortized over their estimated useful lives, which do not exceed the estimated useful mine life, based on "proven and probable" mineral reserves and "mineral measured resources."

In March 2009, the CICA approved EIC 174,"Mining Exploration Costs". This guidance clarified when exploration costs related to mineral properties may be capitalized and, if exploration costs are initially capitalized, when should impairment be assessed to determine whether a write-down is required. The guidance further clarified what conditions indicate impairment. This guidance is applicable to financial statements filed after March 27, 2009. The Company has considered this guidance in assessing the value of its mineral properties at June 30, 2010.

Expenditures for the continued development of the property are capitalized as incurred and are amortized using the unit of production method over the estimated useful life of the mine based upon proven and probable reserves and mineral measured resources. These costs include building access ways, shaft sinking and access, lateral development, drift development, ramps and infrastructure development.

Impairment is recognized when the carrying amount of the mining properties, plant and equipment exceeds the estimated future undiscounted cash flows relating to the mining properties, plant and equipment. Such impairment loss recognized is calculated as the excess of the carrying amount over the fair value of the mining properties, plant and equipment.

h) **Exploration and development costs**

Acquisition costs of resource properties are capitalized. Direct exploration and development expenses are expensed as incurred until resources have been identified and then these expenses are deferred. Upon reaching commercial production, these capitalized costs are transferred from exploration properties to mining properties, plant and equipment as mine development costs and are amortized into operations using the units of production method, based on proven and probable mineral reserves and mineral resources.

The Company regularly assesses the exploration and development costs for impairment. An impairment occurs when at least one of the following conditions are met:

Producing properties

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

- The carrying amount of the capitalized costs exceed the related undiscounted net cash flows of proven and probable reserves and measured resources;

Exploration properties

- exploration activities have ceased;
- exploration results are not promising such that exploration will not be planned for the foreseeable future;
- lease ownership rights expire; or
- sufficient funding is not expected to be available to complete the exploration program; then

the carrying amount will be written down to its fair value and charged to operations.

i) **Goodwill and intangible assets**

The Canadian Institute of Chartered Accountants issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which replaced 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 its deferred charges meet the criteria for deferral with the adoption of CICA Handbook Section 3064 for the fiscal year beginning October 1, 2008.

j) **Revenue recognition**

Revenue from the sale of concentrates is recognized following the transfer of title and risk of ownership and the determination in accordance with contractual arrangements with customers. Risk and title is transferred when the concentrate is delivered to the premises of ENAMI, the Chilean national mining company. Generally, the final settlement price is computed with reference to the average quoted metal prices for a specified period of time, normally one month subsequent to shipment to the customer. Revenues are recognized when the concentrate material is delivered to ENAMI based on the currently prevailing metals prices, quantities of concentrate delivered and provisional assays as agreed between the company and ENAMI for each shipment. Concentrate sales are subject to adjustment on final determination of weights and assays, revenues are adjusted when these final determinations are known. By-products such as copper and silver are contained within concentrates shipped to ENAMI and revenue from these by-products are recognized on the same criterion as those used for gold revenues.

k) **Stock-based compensation**

The Company has a share option plan, as discussed in note 10. Compensation expense is recorded when share options are issued to directors, officers or employees under the Company's share option plan, based on the fair value of options granted. Consideration paid by optionees on

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exercise of an option is recorded in share capital. Stock-based compensation given to outside service providers is recorded at the fair value of consideration received or consideration given, whichever is more readily determinable. The fair value of options granted or consideration given is determined using the Black-Scholes valuation model, with volatility factors and risk-free rates existing at the grant date. The share price at the grant date is considered to be equal to the closing price of the Company's stock on the TSX on the business day preceding the grant date.

l) **Income taxes**

The asset and liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are determined, based on differences between the financial reporting and income tax bases of assets and liabilities, and are measured using the income tax rates substantively enacted at the consolidated balance sheet dates that are expected to apply when the assets are realized or the liabilities are settled. Net future income tax assets are offset by valuation allowances to the extent that they are considered not more likely than not to be realized.

m) **Earnings and loss per share** (EPS)

Basic EPS is computed by dividing the income or loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares when the conditions necessary for issuance have been met. Diluted EPS is calculated in a manner similar to basic EPS, except that the weighted average number of shares outstanding is increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants on the as-if converted method for convertible securities.

n) **Reclamation and remediation**

Asset retirement obligations are recorded in mining properties, plant and equipment and in liabilities at fair value, when incurred. The liability is accreted over time through periodic charges to income. The amount of the liability is subject to remeasurement at each reporting period. These obligations are associated with long-lived assets for which there is a legal obligation to settle under existing or enacting laws, statutes or contracts. The related assets are amortized using the unit of production method.

Key assumptions on which the fair value of the asset retirement obligations is based include the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate on which the estimated cash flows have been discounted. The actual asset retirement obligation and closure costs may differ significantly, based on future changes in operations, cost of reclamation and closure activities, regulatory requirements and the outcome of legal proceedings.

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o) **Financial instruments recognition, measurement, disclosure and presentation**

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.

Hedging

The Company currently does not hold any financial instruments designated for hedge accounting.

p) **Credit risk and the Fair Value of Financial Assets and Financial Liabilities**

In January 2009, the CICA approved EIC 173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This guidance clarified that an entity's own credit risk and the credit of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivatives for the period ended June 30, 2010. The Company has performed an assessment as of June 30, 2010 and believes there to be no impact on its financial statements.

3. 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 30, 2012. While the Company has begun assessing the adoption of IFRS for

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2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

For interim and annual financial statements relating to its fiscal year commencing October 1, 2011, the Company will be required to adopt new CICA Accounting Handbook Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interest". Handbook Section 1582 replaces existing Handbook Section 1581 "Business Combinations", and Handbook Sections 1601 and 1602 together replace Handbook Section 1600 "Consolidated Financial Statements". The adoption of Handbook Sections 1582, and collectively, 1601 and 1602 provides the Canadian equivalent to IFRS 3 "Business Combinations" and International Accounting Standard IAS 27 "Consolidated and Separate Financial Statements" respectively. The Company has not yet determined the effect, if any, that the adoption of these standards will have on its financial statements.

4. 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.

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)

5. Share Capital

	Number of shares	Amount $
Outstanding –September 30, 2009	792,440,170	70,919
Bonus share (i)	500,000	14
Private placement (ii)	32,586,888	928
Private placement (iii)	14,650,575	417
Outstanding –June 30, 2010	840,177,633	72.278

i) On April 19, 2010, the board of directors approved the issuance of 500,000 bonus shares to an employee. The shares were valued at $14,713, using the TSX closing price.

ii) On April 21, 2010 the holders, Mr. David R.S. Thomson and Mr. Mario Hernandez both Executive Vice Presidents and a directors of the Company through their companies Compania Minera Auromin Ltda, and Compania Minera Chanar Blanco S.A., respectively, each acquired one Debenture convertible into common shares of the Company (each, an "A Debenture"). Hernandez acquired an A Debenture in the aggregate principal amount of $716,105 which is convertible into up to 16,312,866 common shares of the Company. Thomson acquired an A Debenture in the aggregate principal amount of $714,400 which is convertible into up to 16,274,022 common shares. The A Debentures were issued in payment of past due interest and royalties payable to Hernandez and Thomson through to December 31, 2009 by Compania Minera Pimenton. The conversion price of the 5 year A Debentures is CA$ $0.045 per share convertible into an aggregate of up to 32,586,888 common shares of the Company. The interest rate on the A Debentures is 6% payable annually. No warrants are attached to the A Debentures. The Company has the right to call the A Debentures at any time one year after the date of issue on 30 days notice to the holders. On June 29, 2010 the holders, Mr. David R.S. Thomson and Mr. Mario Hernandez both Executive Vice Presidents and a directors of the Company elected to convert the $1,430,505 convertible unsecured debenture A, which was issued to them in April 2010 and was due to mature on April 21, 2015 into 32,586,888 common shares at a conversion price $0.045 per share. These shares were value at $928,489 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a gain of $523,544 of which $222,539 was recorded as other income for the three months ended June 30, 2010 and $301,005 was recorded as contributed surplus.

iii) On April 21, 2010 the holders, Mr. David R.S. Thomson and Mr. Mario Hernandez both Executive Vice Presidents and a directors of the Company through their companies Compania Minera Auromin Ltda, and Compania Minera Chanar Blanco S.A., respectively. Thomson acquired a B Debenture in the aggregate principal amount of $250,000 which is convertible into up to 6,406,970 common shares together with up to 6,406,970 common share purchase warrants. Hernandez also acquired a B Debenture in the aggregate principal amount of $321,667 which is convertible into up to 8,243,644 common shares together with up to 8,243,644 common share purchase warrants. The B Debentures were issued in payment of cash advances by Hernandez and Thomson to the Company totalling $571,667 which cash advances were used

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for working capital and to fund capital expenditures on Pimenton. The conversion price on the five year B Debentures is CA$ $0.04 per share convertible into an aggregate of up to 14,650,575 common shares of the Company. Interest rate on the Debenture is 6% payable annually. In addition the B Debenture holders were issued 14,650,575 warrants exercisable at CA$ $0.05 per common share of the Company. Net proceeds of the placement were $356,132, of which $215,535 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 3.2%, no dividend and a volatility factor of 132%. On June 29, 2010, Mr. David R.S. Thomson and Mr. Mario Hernández converted $571,667 convertible unsecured debenture B which was issued to them in April 21, 2010 and was due to mature on April 21, 2015 into 14,650,575 Common Shares and one-half warrants exercisable for five years from the date of issuance at CA$0.045 per share. The exercised shares were valued at $417,435 using the TSX closing price of CA$0.030 on June 29, 2010 resulting in a loss of $55,893 of which $53,320 was recorded as a reduction in other income for the three months ended June 30, 2010 and $2,573 was recorded as contributed surplus.

6. Financial Risk Factors

The Company's financial instruments are exposed to financial risks as 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 June 30, 2010, the Company had a positive working capital of approximately $1,386,000 which included cash of $763,000. At June 30, 2010 the Company's accumulated deficit was approximately $67,420,000 and shareholders' equity was approximately $12,949,000.

To preserve its cash position the Company plans to concentrate its efforts on Pimenton.

Sensitivity Analysis

As of June 30, 2010, 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 twelve-month period:

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(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.

Economic dependence

The Company's customers are Argor – Heraeus the Switzerland smelter Company and ENAMI the Chilean national mining company, had purchases representing 85% and 15% of sales during the last two months.

7. Recoverable Taxes

Recoverable taxes in the amount of $1,967,249 at June 30, 2010 (September 30, 2009- $2,125,483) have been classified as a short-term asset, on which include VAT taxes paid on the fixed assets in the amount of $358,235 as at June 30, 2010 (September 30, 2009- $349,000). The Chilean tax authorities agreed to recover it against tax due upon domestic sales of the Company or by requesting reimbursement of VAT 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.

8. Long-term Debt

Description	June 30, 2010 Principal $	September 30, 2009 Principal $
OPIC note, due on September 15, 2010 (ii)	302	401
Pimenton note, due on June 15, 2011 (i)	1,944	1,895
Debenture C-D private investor	181	-
	2,427	2,828
Less: Current portion	(302)	(933)
Long-term debt	2,125	1,895

i) On April 21, 2010 $300,000 of convertible unsecured debentures (the "C Debentures") was issued to five non-insiders of the Company. The conversion price of the C Debentures is CA$0.04 per share convertible

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into up to 7,821,000 shares of common shares of the Company. Interest rate on the C Debentures is 6% payable annually. In addition the debenture holders were issued 7,821,000 common share purchase warrants exercisable at CA$0.05 per common share of the Company. On May 11, 2010 $330,000 of convertible unsecured debentures (the "D Debentures") were issued to four non-insiders of the Company. The conversion price of the D Debentures is CA$0.04 per share convertible into up to 8,261,550 shares of common shares of the Company. Interest rate on the D Debentures is 6% payable annually. In addition the debenture holders were issued 8,261,550 common share purchase warrants exercisable at CA$0.05 per common share of the Company. The total amount was $630,000 of which $166,432 was assigned to liability, $210,755 was assigned to the warrants and $252,812 was assigned to equity. In the amount of $15,164 at June 30, 2010, are recorded as interest accretion. The Company has the right to call the C –D Debentures at any time one year after the date of issue on 30 days notice to the Debenture holders. The holders of the C Debentures have the right to ask for the repayment of $150,000 and 165,000, respectively after the loan to Pimenton from OPIC is repaid. If the holders of the Debenture exercise this right of repayment they shall forfeit such percentage of warrants as is equal to the percentage of principal being repaid. The proceeds from the C and D debentures was used for working capital and to fund capital expenditures at Pimenton.

ii) On June 14, 2009 OPIC agreed to sign a "Standstill Agreement" waiving the financial and operational covenants of the loan agreement and in return the Company agreed to pay the balance of the loan, commencing on June 15, 2009, on a quarterly basis at the rate of $622,220 beginning on June 15, 2009 versus semi-annual payments of the same amounts called for in the original loan agreement..

9. Warrants

	Number of warrants	$
Balance - September 30, 2009	120,630,596	1,454
Modified (a)	-	8
Issued (note 5(iii))	14,650,614	216
Issued (b)	7,821,000	114
Issued (c)	8,261,550	97
Expired warrants (a)	(26,431,530)	(184)
Balance – June 30, 2010	124,932,230	1,705

(a) On December 1, 2009 the TSX agreed to further extend the expiration date on the 46,187,485 outstanding common share purchase warrants (the "Warrants") and 5,616,936 outstanding common share purchase warrants (the "Broker Warrants") which were due to expire on December 17, 2009, all of which were issued in connection with a private placement on December 17, 2007. The fair value of these modified warrants and broker warrants of $8,066, in excess of the fair value of the original warrants immediately prior to the modification date of $nil, was charged to expense. The fair values of the warrants were

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assigned using the Black-Scholes valuation model, assuming a risk-free interest rate of 1.28%, no dividend and a volatility factor of 142%. These warrants were further extended to December 17, 2010, at which time they expire.

(b) On April 21, 2010 $300,000 of convertible unsecured debentures (the "C Debentures") was issued to five non-insiders of the Company. The conversion price of the C debentures is CA$0.04 per share convertible into up to 7,821,000 shares of common shares of the Company. Interest rate on the C Debentures is 6% payable annually. In addition the debenture holders were issued 7,821,000 common share purchase warrants per common share of the Company exercisable for 60 months from the date of issuance at CA$0.05 per share. Net proceeds of the placement were $185,965, of which $114,035 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 3.2%, no dividend and a volatility factor of 132%.

(c) On May 11, 2010 $330,000 of convertible unsecured debentures (the "D Debentures") were issued to four non-insiders of the Company. The conversion price of the D Debentures is CA$0.04 per share convertible into up to 8,261,550 shares of common shares of the Company. Interest rate on the D Debentures is 6% payable annually. In addition the Debenture holders were issued 8,261,550 common share purchase warrants per common share of the Company exercisable for 60 months from the date of issuance at CA$0.05 per share. Net proceeds of the placement were $233,279, of which $96,721 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 2,93%, no dividend and a volatility factor of 132%.

10. Share option plan

The Company has a share option plan (the Plan) whereby, from time to time at the discretion of the Board of Directors, share options are granted to directors, officers, employees and certain consultants. Options granted under the stock option plan of the Company (each, an "Option") outstanding as of June 30, 2010, total 86,470,000 of which 76,670,000, are currently exercisable into one Common Share for each Option at prices of CA$0.04 to CA$0.09 per Common Share expiring at various dates through April 19, 2015.

A summary of the Company's Plan for the nine months ended June 30 is as follows:

	$	Number of options	Weighted average exercise price CA$
Balance – September 30, 2009	1,479	85,610,000	0.060
Changes during the year			
Granted (i)	-	8,000,000	0.045

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

Granted (ii)	856	28,555,714	0.035
Vested	170	-	
Cancellation(iii)	(297)	(20,000,000)	
Expired	(436)	(15,695,714)	0.070
Balance – June 30, 2010	1,772	86,470,000	0.054

i) On October 19, 2009 the Chief Executive Officer (the "CEO") of the Company was granted 8,000,000 options to replace 8,000,000 options which expired on September 27, 2009. Each Option is exercisable for a period of five years until October 19, 2014 for one common share of the Corporation at CA$0.045 per share, 1,600,000 to vest immediately, 1,600,000 to vest one year from the date of grant, the balance of 1,600,000 to vest on the second anniversary of the date of grant, the balance of 1,600,000 to vest on the third anniversary of the date of grant, and the balance of 1,600,000 to vest on the fourth anniversary of the date of grant. The options were valued at a fair value of $302,256, using the Black-Scholes valuation model, assuming a risk –free rate of 2.36%, no dividend, and volatility factor of 130%, of which $72,707 was expensed as stock-based compensation for the six month period ended June 30, 2010.

ii) The Company renewed 12,555,714 common stock options that have expired on April 5, 2010. The new grants of Stock Option were issued on April 19, 2010 exercisable at CA$0.035 per share for a period of five years from the date of issuance with immediate vesting, which were issued to (i) Director of the Company (10,155,714 options) and (ii) Employees (2,400,000 options). These options were fair valued at $376,471, using the Black –Scholes valuation model, assuming a risk-free rate of return of 2.54%, no dividend and volatility factor of 132% and expensed as stock-based compensation. In addition, 16,000,000 of new options were issued on April 19, 2010 exercisable at CA$0.035 per share for a period of five years from the date of issuance, which were issued to: (i) Director of the Company (13,500,000 options); (ii) Chief Financial Officer (1,000,000) and (iii) employees (1,500,000 options). These options were fair valued at $479,744, using the Black –Scholes valuation model, assuming a risks-free rate of 2.54%, no dividend, and volatility factor of 132% and expensed as stock-based compensation.

iii) The President of the company resigned on November 4, 2009. 20,000,000 options were cancelled.

11. Commitments

a) Project commitments

Project	Description	Total potential commitment $	Paid to date $

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

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, The Company has paid $110,000 and the balance of $40,000 due to July 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.		40
La Bella	Under the terms of the Option Agreement (inner circle), modified on May 31, 2010, the Company has paid $351,538, $471,469 is due in December 2010, $530,402 in December 2011, $589,336 in December 2012 and $1,591,207 in December 2013. The Company will pay a 2 ½% Net Smelter Royalty to the optionee from production thereafter. 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 On the outer circle the Company paid $228,198, deferred to January 26, 2010 due to access problems to the prospect and future payments have been deferred by one month to $589,336 in January 2011, $825,070 in January 2012, $1,178,672 in January 2013 and $3,064,547 in January 2014. The Corporation has an obligation to pay a 2½% net smelter royalty to the optionee of the outer circle from production thereafter.	8,840	580
Cal Norte	Capital contribution of $1,800,000 to earn 60% equity interest	1,800	1,545

b) Lease commitments

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

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

Year ending	June 30, 2010	September 30, 2009
	$	$
2009	-	8,530
2010	317,632	34,119
2011	208,584	14,355
2012	87,047	-
	613,263	57,004
Interest	(49,576)	(6,617)
	563,687	**50,387**

12. Related Party Transactions

A company owned by the Chief Executive Officer of the Company, who is also a director of the Company (the "CEO") billed the Company $22,066 in the period ended June 30, 2010 (2009 - $54,450) for the provision of office space and services used by the Company. Receivable from an officer and director of the Company of $184,763 for the nine months ended June 30, 2010 (2009 - $212,860) is the net amount of non-interest-bearing note receivable compensations and advances to the CEO. The note is due on June 30, 2010 and is collateralized by 6,532,000 Common Shares owned by this officer and director.

A company controlled by the current Chief Financial Officer of the Company billed the Company $36,066 for accounting and administration services rendered in the period ended June 30,2010 31, 2010 (2009 - $25,569). Amounts due to related parties include payables to this officer of $18,907 for such services at June 30, 2010 (2009 - $6,586).

In June 2010, additional working capital of $819,833, in the form of an advance was provided by the executive-vice-president of claims and land management and the executive-vice-president of exploration, both directors of the Company.

During 2007, the Executive-Vice President-Director of Claims and Administration, 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 $974,918 at June 30, 2010 (2009 - $937.439) and interest expense was $36,342 in 2010 (2009 - $36,224). Amounts due to related parties include $24,017 (2009- $230,151) for interest and $137,362 for royalties as at June 30, 2010 (2009 - $350,020).

Amounts due to related parties include $24,173 and $231,697 as at June 30, 2010 and 2009, 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 $968,645 and

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

$937,439 as at June 30, 2010 and 2009, respectively, and interest expense was $36,342 for the nine months ended June 30, 2010 (2009 – $36,224). In addition, amounts due to related parties include $137,362 and $350,020 as at June 30, 2010 and 2009, respectively, for royalties due to this officer and director who is the owner of a net smelter royalty on the Pimenton gold mine. In addition, amounts due to related parties include a cash advance of $325,236 at June 30, 2010 (2009 - $8,909).

On October 19, 2009 the Chief Executive Officer, who is also a Director of the Company, entered into an employment agreement. As Chief Executive Officer, he will report to the board of Directors of the Company. Mr Hougthon was granted a two year contract which will be renewed for an additional two years period at the end of each year. Under the term of the contract, Mr. Houghton is to be paid $110,000 per year. However, until the loan with Overseas Private Investment Companys is repaid, $7,000 per month will be paid in cash and $2,166 per month will be deferred. Mr. Houghton at his option may request that all or a part of his salary be paid in common stock of the Company. Any stock issued would be subject to shareholders and regulatory approval. As of June 30, 2010 amount due to related parties include $19,500.

On October 19, 2009 a Company owned by David R.S. Thomson, Executive-Vice President-Director of Exploration of the Company, Minera Auromin Ltda, entered into a services contract for a period of two years, which will be renewed for an additional two year periods at the end of each year. Under the term of the contract, Minera Auromin Ltda. is to be paid, $300,000 per year. However, until the loan with Overseas Private Investment Corporation (OPIC) has been repaid, $17,000 per month will be paid in cash and the balance of $8,000 per month will be deferred. Minera Auromin Ltda., at it sole option, may request that all or part of the fees to be paid in common stock of the Company. Any stock issued would be subject to shareholders and regulatory approval. Currently, the $300,000 due under the service contract is being deferred. As of June 30, 2010 amount due to related parties include $225,000.

On October 19, 2009 a Company owned by Mario Hernández, Executive-Vice President-Director of Claims and Administration of the Company, Compañía Minera Chañar Blanco S.A., entered into a services contract for a period of two years, which will be renewed for an additional two year period at the end of each year. Under the term of the contract, Compañía Minera Chañar Blanco S.A is to be paid $110,000 per year. However, until the loan that the Overseas Private Investment Corporation (OPIC) has been fully paid, $7,000 per month will be paid in cash and the balance of $2,166 per month will be deferred. Compañía Minera Chañar Blanco S.A, at it sole option, may request that all or part of the fees are paid in common stock of the Company. Any stock issued would be subject to shareholders and regulatory approval. Currently, the $110,000 due under the service contract is being deferred. As of June 30, 2010 amount due to related parties include $82,500.

On June 9, 2009, 2,469,571 Common Shares valued at CA$0.035 were issued to two officers (Executive-Vice President, Claims and Land Management and Executive-Vice-President and Director of the Company Exploration) who are also Directors and were issued in lieu of interest payments, due for the period of March 31, 2008 to March 31, 2009 on the US$1,600,000 Convertible Debenture

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

issued to it in 2006. Interest expense was $47,055 for the periods ended June 30, 2009. Amounts due to related parties include payables to these officers of $9,095 as at June 30, 2009 for interest on such debentures.

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.

In 2001, the Board of Directors and Compensation Committee approved the granting of a 3.2% net smelter royalty interest on Tordillo, a 2.5% net smelter royalty interest on both the inner circle and out circle of claims on La Bella and a 3.2% net smelter royalty on Bandurria. The CEO, the Executive-Vice President-Director of Exploration and the Executive Vice President and Director of claims and Land Administration who are also directors of the Company share in these net smelter royalties. To date no royalties have been paid on these properties.

The former Chief Financial Officer (the "CFO") 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 continued to be paid at the rate of $5,000 per month until February 28, 2009. Beginning in March, 2009 he was paid $12,500 per month until the net balance was paid. Effective June 26, 2009 the former Chief Financial Officer was paid in full.

13. Short-term Borrowings

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

14. Comparative Amounts

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

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

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.

Richard J. Lachcik*
Toronto, ON, Canada

Fernando Saenz Poch*
Concepción, Chile

Juan A Proaño*
Potomac, Maryland
Director of Minera Poderosa S.A.
a gold mining company located in Peru

Frederick D. Seeley*(1),(2)
New York, New York
Chairman, Givens Hall Bank and Trust Limited

John J. Selters*
Santiago, Chile
General manager of Magna Energy Chile Ltda.
Santiago, Chile

David R. S. Thomson*
Santiago, Chile
Executive Vice President and Director of Exploration

Peter W. Hogg
Toronto, ON, Canada
Chief Financial Officer

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

Corporate Information

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Auditors:
PricewaterhouseCoopers LLP
Toronto, Ontario, Canada

Stock Registrar and Transfer Agent
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Toronto, Ontario, Canada