

**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 the quarters ended December 31, 2010 and 2009, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of February 3, 2011. 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](http://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, management's beliefs regarding the value of its deposits, expectations with respect to the level and funding of working capital, the expected increase in concentration of gold in its Knelson concentrate resulting from the new gold table and gold furnace 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.

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 December 31, 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
- Outstanding Share Information
- Risk Factors
- Critical Accounting Policies
- International Financial Reporting Standards
- Disclosure Controls and Procedures
- Internal Control Over Financial Reporting

### **Overall Performance**

The Company's Pimenton gold/copper mine is a narrow high grade gold/copper mine located in the high mountain range of Chile. Its location means it is subject to snow and avalanches that may increase operating costs and can cause temporary shut downs during the Chilean winter season. Mining costs in a narrow high grade mine such as Pimenton can also be higher on a cost per ton basis than in an underground larger vein mine.

The Company's sales of gold, copper and silver for the three months ended December 31, 2010 were considerably above the three months ended December 31, 2009 due to increased production of gold ounces, as well as silver and copper. The price of gold and silver per ounce, and copper per pound was also above the same period a year ago.

While mine operating expenses increased during the three month period ended December 31, 2010 this was primarily due to the hiring of more miners to prepare the mine for the planned production increases as well as higher labor costs as wage pressure increased.

The total fleet of available mining equipment is being increased and should be in operation by late January 2011. The Company expects the mine to gradually increase

production above current tons per day during the year ending September 30, 2011 at current reserve grades.

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 its 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 enhance 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, while it was shut down on September 9, 2005 when a major snowstorm moved through the region causing avalanche damage at the mine site, in December 2007 the Company was successful in raising sufficient funds to re-start operations. In January 2008, the Company commenced work to prepare the mine for operations.

Most of the Company's efforts in 2007 and 2008 were focused on restarting Pimenton and the Pimenton mine was put back into production in July 2008 with commercial production being declared October 1, 2008. During October 2008 a rate of production of 91 tons per day was achieved during the 21 days the plant was in operation. The Company expects production to move up to 150 tons per day by mid 2011 and to reach 200 tons per day by calendar year end of calendar 2011. Currently the plant has been permitted to operate at an average of 166 tons per day. The Company has applied for permits to take the mine up to 500 tons per day. Reaching the 200 tons per day will depend on the regulators processing time on the new permits. At the present rate of production, proven and probable reserves are sufficient for four years of production. In addition the Company is currently working to convert 189,000 tons of drill indicated resources as defined in the Company's December 31, 2010 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 is conducting new exploration activities on its porphyry copper deposit located within the Pimenton area. Currently additional Mobil Metal Ion (MMI) studies are being conducted on the property which is expected to further define drill targets. Based on a diamond drill program completed by Rio Tinto Mining and Exploration Ltd. ("Rio Tinto") on the 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 understanding 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 American”), 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 during the 2010-2011 exploration season and may conduct further drilling on the prospect.

#### 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.

#### La Bella

The Company has signed an option agreement (the “La Bella Option Agreement”) in 2007, which was modified on December 18, 2009 and again on December 16, 2010. The new agreements provide for an earn in of a 100% interest on claims covering approximately 6,000 hectares (14,820 acres) on the La Bella prospect area (formerly the inner circle”). The Company has also put down additional claims covering the El Chilque project area (formerly the outer circle”) to earn a 100% interest which encompasses an additional area of approximately 26,000 hectares (64,220 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 32,000 hectares (78,793 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.

Under the modified agreement entered into on December 16, 2010 on the inner circle \$25,000 was paid on December 17, 2010. The remaining payment obligations will be

paid as follows: \$100,000 in December 2011; \$200,000 in December 2012; \$300,000 in December 2013 and \$875,000 in December 2014. The Company will pay a 3% Net Smelter Royalty from production thereafter.

On the outer circle under the new agreement \$25,000 was paid on December 17, 2010. The remaining payments obligations will be paid \$100,000 in December 2011; \$200,000 in December 2012; \$300,000 in December 2013 and \$875,000 in December 2014. The Company will pay a 3% net smelter royalty to the optionee of the outer circle from production thereafter.

#### 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.

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.

#### **Capacity to Deliver Results**

Pimenton gold mine.

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 focusing its attention to Pimenton.

La Bella

During the three months ended December 31, 2010, the Company wrote off a total of \$119,709 (2009 - \$12,327) relating to mining property costs and exploration costs on the La Bella.

Limestone deposits

As at December 31, 2010, the Company had contributed \$3,812,000 (2009 - \$3,743,000) 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, 2010 the Company wrote off the balance of \$3,743,000 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 three months period ended December 31, 2010, the Company wrote off an additional \$68,924 (2009 - \$10,629) relating to mining property costs on the Catedral/Rino.

As at December 31, 2010, the Company had contributed \$1,547,000 (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, At September 30, 2010 the Company wrote off the balance of \$1,545,000 in mining property costs and exploration costs as the properties had been on care and maintenance for more than three years as it focuses its efforts on its Pimenton gold mine. For the three months period ended December 31, 2010, the Company wrote off an additional \$1,834 (2009 - \$nil) of mining property costs.

**Result of operation - for the quarter ended December 31, 2010, compared to the quarter ended December 31, 2009.**

The Company reported net income of \$1,678,000 for the three months period ended December 31, 2010 compared to loss of \$1,020,000 in the same period ended December 31, 2009.

For the three months period ended December 31, 2010, revenue from gold sales were \$5,482,000 or 4,027.44 gold ounces (2009 - \$1,915,000 or 1,688.33 gold ounces) and from copper and silver sales were \$681,000 (2009 - \$248,000).

Operating expenses were \$3,031,000 in the three months ended December 31, 2010 compared to \$2,186,000 for the same period in 2009. The increase of \$845,000 during the

three months period ended December 31, 2010 consisted of mine expenses \$360,198; plant operations \$94,974; management \$15,506 camp \$83,727; concentrate transport \$16,655; royalties \$236,083; smelting, refining and metallurgical charges \$50,598. This was offset by a reduction in health clinic & safety and others \$ 12,741.

The estimated cost 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 December 31, 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 months period ended December 31, 2010 was \$39,129 (2009 - \$36,399)

Amortization expenses were \$305,564 in the three months ended December 31, 2010 (2009 - \$125,065). 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 December 31, 2010 was \$253,794 compared to \$212,283 for the same period in 2009. The increase of \$41,511 was due to more mining equipment purchased.

General and administrative costs decreased by \$70,172 for the three months ended December 31, 2010 as compared to the same period in 2009. Professional fees increased by \$49,347 of which \$28,474 related to geological; \$14,421 related to legal fees; other professional fees increased by \$6,452. Insurance increased by \$14,545. This was offset by a reduction of salaries by \$36,855; overhead by \$90,982 and transport expense decreases of \$4,804; taxes and penalty and other expenses decreased by \$1,423.

Stock based compensation was \$31,932 during the three month period ended December 31, 2010 compared to \$85,497 for the same period in 2009. The Company expensed \$31,932 (2009 - \$46,925) for the vesting period of common stock options (as defined below) issued during the three months ended December 31, 2010 for options granted whose vesting period is between the date of grant and three, four and five years. The vesting period expenses were offset by \$34,135 for the pre-vest cancellations of 6,000,000 options for the president of the company, who has resigned on November 4, 2009. In addition 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. The new options are exercisable over a four year period until October 19, 2014 at CA\$0.045 per share; 1,600,000 to vest immediately; 1,600,000 to vest one year from the date of grant; of 1,600,000 to vest on the second anniversary of the date of grant; 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 value 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%, on which \$72,707 was expensed as stock-based compensation for the three month period ended December 31, 2009.

Warrant revaluation expenses were \$111,986 for the three month period ended December 31, 2010 compared to \$8,066 for the same period in 2009. On December 6, 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, 2010, 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 \$111,986, 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 1.24%, no dividend and a volatility factor of 143%. These warrants were further extended to June 17, 2011.

The foreign exchange gain was \$10,461 for the three months ended December 31, 2010 compared to a gain of \$161,851 in the same period of 2009. This decreased of \$151,390 was due to the increased of the US dollar versus the Chilean peso.

Interest expense was \$87,502 for the three months ended December 31, 2010 compared to \$94,071 in the same period of 2009. The decrease of \$6,569 in interest expenses was due to a reduction of OPIC interest in the amount of \$18,914. This reduction was offset by an increase in accretion and interest of the C and D Debentures and other interest costs of \$12,345.

The Company has taken the decision to focus its efforts on developing the Pimenton gold mine. As a result management decided not to continue further exploration of its exploration properties and during the period wrote off the carrying value of its exploration properties of \$262,929 (\$131,196 – 2009) as follows: Catedral \$68,924 (\$10,629 - 2009); La Bella \$104,090 (\$12,327 – 2009); Cal Norte \$1,834 (\$nil – 2009); Bandurrias and others \$5,398 (\$nil– 2009); and other services for exploration cost \$70,000 (as development cost \$100,000 – 2009). In addition the Company wrote down recoverable taxes in the amount of \$12,683 (2009 - \$8,240).

During 2010, the Company incurred exploration costs on projects where the resource potential has not yet been determined as defined by National Instrument 43 – 101 and accordingly these exploration costs amounting to \$70,000 (\$100,000 – 2009) were expensed.

Other income was \$24,155 for the three month period ended December 31, 2010 compared to \$nil in the same period of 2009. The Company received insurance proceeds in the amount of \$24,155.

## Summary of Quarterly Results

	<b>December 31, 2010</b>	<b>September 30, 2010</b>	<b>June 30, 2010</b>	<b>March 31, 2010</b>
Sales	6,163	4,045	2,714	2,037
Net income (loss) before extraordinary items	1,916	(232)	(1,731)	(748)
Per share	0.0022	(0.0003)	(0.0021)	(0.0009)
Per share diluted	0.0018	(0.0002)	(0.0017)	(0.0008)
Net income (loss) after extraordinary items	1,678	(917)	(2,803)	(508)
Per share	0.002	(0.001)	(0.003)	(0.001)
Per share diluted	0.002	(0.001)	(0.003)	(0.001)

	<b>December 31, 2009</b>	<b>September 30, 2009</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>
Sales	2,163	1,789	2,890	3,813
Net income (loss) before extraordinary items	(889)	(1,201)	204	1,145
Per share	(0.0009)	(0.0015)	0.0003	0.0015
Per share diluted	(0.0008)	(0.0012)	0.0002	0.0011
Net income (loss) after extraordinary items	(1,020)	(1,285)	651	1,139
Per share	(0.001)	(0.002)	0.001	0.002
Per share diluted	(0.001)	(0.001)	0.001	0.001

### Non-GAAP Financial Measures

This MD&A refers to cash cost per ounce of gold 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. These 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 not 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 three month period ended December 31,	<u>2010</u>	<u>2009</u>
Tons of gold ore processed	9,061	7,500
Gold ounces sold	4,027	1,688
Cost of sales	3,633	2,623
Add (deduct):		
Amortization and depreciation	(549)	(332)
Remediation and reclamation	(39)	(36)
Total cash cost of production before by-product credits	3,045	2,255
Copper and Silver – by- product credits	(659)	(238)
Total cash cost of production after by-product credits	2,386	2,017
<b>Cash cost per ounce</b>	<b>\$592.5</b>	<b>\$1,194.67</b>

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 by mid 2011 and increase production to near 200 tons per day by year end of calendar 2011. Currently the plant has been permitted to operate at an average of 166 tons per day. The Company has applied for permits to take the mine up to 500 tons per day. Reaching the 200 tons per day will depend on the regulators processing time on the new permits. The following is a sensitivity analysis:

**PRODUCTION VARIABLES AND SENSITIVITIES FOR 200 TPD.**

**VARIABLES**

Head grade gold	13	g/t
Head grade copper	1	%
Starting tons per day year 1	100	Tpd
Tons per day year 2	200	Tpd
Plant combined recovery	90%	
Price per Ounce Gold	\$1,300	
Price per pound Copper	\$2.00	
Exchange rate US\$	485	CH\$
Loan Interest rate	8.50%	
Price per liter Diesel	500	CH\$
Price per liter Gasoline	600	CH\$

**ALL IRR% ARE FOR ENTIRE INVESTMENT**

**Grade Sensitivity. Projects from a low of 10g/t to 18 g/t Au head grade through plant.**

Au g/t	Cu%	Op.Cost/Oz	IRR%
10	0.8	\$382	112%
12	1.0	\$340	142%
14	1.2	\$310	171%
16	1.4	\$288	199%

Cost/Oz is cash cost per ounce at the mine

**300 TPD**

**Recovery Sensibility. Projects from 5% to 10% less plant Recovery for gold.**

% diff. Recovery	Op.Cost/Oz	IRR%
-10%	\$326	152%
-5%	\$314	165%
2%	\$301	183%

Cost/Oz is cash cost per ounce at the mine

**Tonnage Sensitivity from a low of at 100 to a high of 400 tpd.**

Tons per day	Op.Cost/Oz	IRR%
100%	\$581	85%
125%	\$498	103%
150%	\$441	119%
175%	\$401	132%
200%	\$371	144%
250%	\$329	164%
300%	\$301	183%

**300 TPD****Price of Gold Sensitivity**

Price per Ounce	IRR%
\$500	98%
\$600	119%
\$700	140%
\$800	161%
\$900	183%
\$1,000	204%

Note: The current reserve grades are 14.4 g/t Au and 1.26% Cu. Below the 3430 level reserve grades are significantly higher.

**300 TPD****Price of Copper Sensitivity with gold at US\$1,300**

Price per pound Cu	IRR%
\$1,00	108%
\$2,00	113%
\$3,00	119%
\$4,00	125%

*Liquidity and capital resources*

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 Years</b>	<b>4-5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Purchase obligations	2,231,871	2,231,871	-	-
Other amounts due to related parties	1,648,790	1,148,790	500,000	-
Pimenton notes	1,943,567	1,943,567	-	-
Other debts	478,513	335,568	-	142,945
Capital leases	620,994	375,250	245,744	-
La Bella option payments (1)	2,950,000	200,000	1,000,000	1,750,000
Conditional loan agreement (2)	2,500,000	-	-	2,500,000
Tordillo prospect (3)	250,000	-	-	250,000
<b>Total Contractual Obligations</b>	<b>12,623,735</b>	<b>6,235,046</b>	<b>1,745,744</b>	<b>4,642,945</b>

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.

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.

Note (3). As a compensation for services rendered in connection with Tordillo, the Company entered into an agreement to pay \$250,000 within 50 days of first cash flow from the property.

The acquisition, exploration, financing, and development of natural resources require the expenditure of significant funds before production commences. Historically, the Company has financed these activities through the issuance of common shares, the exercise of options and common share purchase warrants, the issuance of promissory notes and debentures, bank debt and extended terms from creditors. The Company believes that it will generate sufficient cash flow in the future to sustain normal operations.

At December 31, 2010, cash was \$3,009,000.

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 Company had a positive working capital of \$265,000 at December 31, 2010. The working capital is expected to be improved by increases in operating profits from the Company's Pimenton gold mine. The Company plans to gradually increase production to 150 tons per day by mid 2011 and increase production to near 200 tons per day by calendar year end 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 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; the gold veins in the mine retaining their width, continuity and grade of ore; snow conditions in the Chilean winter which runs from May to August; the future price of diesel fuel; the price of the Chilean peso relative to the US Dollar and the ability of the Company to retain its current work force.

In May, 2010 the Company started 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. 90% of the value of gold shipment is paid during the week following delivery and the balance of the payment is received a month from the day of receipt of the initial payment. For the three months ended at December 31, 2010 66% of the Company's sales have been to a gold refinery in Europe and 34% to the Enami smelter in Ventana, Chile. 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*

La Bella inner was acquired in December 2007 by the Company by way of an option agreement of the property. Under the modified agreement entered into on December 16, 2010 on the inner circle \$25,000 was paid on December 17, 2010. The remaining payments obligations will be paid \$100,000 in December 2011; \$200,000 in December 2012; \$300,000 in December 2013 and \$875,000 in December 2014. The Company will pay a 3% Net Smelter Royalty from production thereafter.

El Chilque prospect area (formerly "the outer circle"), acquired by the Company by way of an option agreement of the property, modified on December 16, 2010. Under the new agreement \$25,000 was paid on December 17, 2010. The remaining payments obligations will be paid \$100,000 in December 2011; \$200,000 in December 2012; \$300,000 in December 2013 and \$875,000 in December 2014. The Company will pay a 3% net smelter royalty to the optionee of the outer circle from production thereafter.

#### *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 CEO (who is also a director) billed the Company \$nil for the period ended December 31, 2010 (2010 - \$26,041) for the provision of office space and services used by the Company. Receivable from such officer and director of the Company of \$331,116 as at December 31, 2010 (2010 - \$236,577) of which \$286,233 is the net amount of non-interest-bearing note receivable and \$44,884 are cash advances. The note has been extended to September 30, 2011 and is collateralized by 6,532,000 common shares owned by this officer and director.

A company controlled by the Chief Financial Officer of the Company (the "CFO") billed the Company \$23,576 for accounting and administration services rendered for the three month period ended December 31, 2010 (2010 - \$40,712). Accounts payable and accrued

liabilities include payables to this officer of \$24,012 for such services at December 31, 2010 (2010 - \$5,195).

A law firm of which a director of the Company is a partner billed the Company \$46,053 in the period ended December 31, 2010 (2010 - \$178,452) for legal services. Accounts payable and accrued liabilities include \$41,190 and \$70,732 as at December 31, 2010 and September 30, 2010, respectively.

During 2007, the Executive Vice President and Director of Land 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 present value of this note was \$974,918 at December 31, 2010 (2010 - \$974,918) and interest expense was \$12,287 for the three month ended December 31, 2010 (2010 - \$48,746). Accounts payable and accrued liabilities include \$48,746 (2010- \$36,459) for interest and \$179,739 for royalties as at December 31, 2010 (2010 - \$254,979).

Accounts payable and accrued liabilities include \$48,432 and \$36,224 as at December 31, 2010 and September 30, 2010, 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. Such Pimenton note has present value amounts of \$968,645 and \$968,645 as at December 31, 2010 and September 30, 2010, respectively, and interest expense was \$12,207 for the three month ended December 31, 2010 (2010 - \$48,432). In addition accounts payable and accrued liabilities include \$179,739 and \$254,979 as at December 31, 2010 and September 30, 2010, respectively, for royalties due to this officer and director who is the owner of a net smelter royalty on the Pimenton gold mine. Also accounts payable include \$8,829 for interest not paid on the Debenture issued to him in 2006 and which were converted on June 9, 2009.

Working capital of \$330,000 was provided between April and July 2010, by Compañía Minera Auromin Ltda owned by the Executive Vice-President of Exploration and a director of the Company.

Working capital of \$500,000 was provided in June 2010, by Minera Chañar Blanco S.A. owner by the Executive-Vice President-Director of Claims and Administration and a director of the Company.

On April 1, 2010, a Company owned by David Thomson, Executive-Vice President-Director of Exploration and a director of the Company, Compañía Minera Auromin Ltda, entered into a services contract with the Company 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 Auromin Ltda. is to be paid \$300,000 per year. The services to be provided by Compañía Minera Auromin Ltda. include; seeking new mining projects; performing geological studies and design drill programs for the Company on exploration projects; conducting preliminary design of the mining plan for designated project and providing other services related to the explorations and development of mining projects. As of December 31, 2010 accounts payable and accrued liabilities

included \$255,000 of which \$180,000 was expensed in prior quarters and \$75,000 has been expensed in the quarter ended December 31, 2010.

On April 1, 2010 a Company owned by Mr. Mario Hernández, Executive-Vice President-Director of Claims and Administration and a director of the Company, Compañía Minera Chañar Blanco S.A., entered into a services contract with the Company 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. The services to be provided by Minera Chañar Blanco S.A. include: maintaining title and ownership of mining properties acquired by the Company; acquiring water rights or request concessions of water rights on the properties acquired by the Company; and negotiations the acquisition of new mining properties for the company. As of December 31, 2010 accounts payable and accrued liabilities included \$93,500 of which \$66,000 was expensed in prior quarters and \$27,500 has been expensed in the quarter ended December 31, 2010.

The Company made payments and issuances of securities to certain directors and officer. For the three month ended December 31, 2010 the expense were \$7,376 (\$24,706 – 2010).

On April 1, 2010, The CEO, who is also a director of the Company, entered into a salary 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 terms of the contract, the “CEO” is to be paid \$110,000 per year.

Two officers and directors of the Company hold the non-controlling interests 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.

On February 9, 1999, the board of directors agreed to amend its November 27, 1996, agreement with Messrs. Hernandez and Thomson regarding the recovery of advances made to explore and develop the Catedral prospect. The board of directors agreed that all funds advanced will be recovered from 80% of the cash flow of the properties or from the sale thereof until the Company has recovered 125% of such advances. On September 11, 2000, the board of directors agreed to an additional amendment to this agreement limiting recovery of advances made through September 30, 2000, to \$3,125,000 (and not the 125% of such advances). Such recovery will be from 60% (reduced from 80% previously agreed upon) of the cash flow from the property or the sale of the property. Future advances will also be recovered from 60% of the cash flow. Accordingly, such advances have been reflected in “Exploration and development costs.”

In 2001, the board of directors and compensation committee of the board approved the granting of a 3.2% net smelter royalty interest on Tordillo, to the CEO, the Executive Vice President and Director of Exploration and the Executive Vice President and Director of Administration who are also directors of the Company.

### **Outstanding Share Information**

As of February 3, 2011, the Company has issued one class of common shares of which a total of 886,182,601 common shares are outstanding. As of February 3, 2011, the Company had 86,971,187 common share purchase warrants outstanding, each of which is exercisable into one common share at exercise prices of CA\$0.025 to CA\$0.070 through May, 2015. Options granted under the stock option plan of the Company (each, an "Option") outstanding as of February 3, 2011, totaled 87,070,000 of which 78,270,000, 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.

### **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 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 will be primarily derived from the mining and sale of gold, silver, 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, silver, copper, limestone and lime could adversely affect the Company's financial condition, results of operations and cash flows. Significantly lower commodity 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 may 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 was dated December 15, 2010. 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, maintaining profitable operations at the mine, pursuing joint venture partners, the 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.

### **Critical Accounting Estimates**

A summary of the critical accounting estimates are set out below:

#### *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 December 31, 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.

### *Exploration and development costs*

Acquisition and exploration costs of exploration properties are expensed as incurred. Once resource potential has been established as defined by a National Instrument (NI) 43-101 report future costs are then capitalized. 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 exploration and development costs for any factors or circumstances that may indicate impairment.

### *Revenue recognition*

Revenue from the sale of concentrates and gold doré are 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 customers. Generally, the final settlement price is computed with reference quoted metal prices for a specified period of time. Revenues are recognized when the concentrate material is delivered to customers based on the currently prevailing metals prices, quantities of concentrate delivered and provisional assays as agreed between the company and customers 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 customers 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 7. 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.

### *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 are 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.

#### *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. 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.

#### 1.3. 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 disclosure checklists and examples in the public domain of IFRS financial statements for mining companies which could provide SAGC with examples of the required disclosures.

#### 1.4. 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.

### 1.5. 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

### 1.6. 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.

### 1.7. 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.

## 1.8. 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.

### **IFRS changeover plan**

The changeover to IFRS from Canadian GAAP is a significant undertaking, and as a result, the Company has dedicated resources to this process. The changeover plan consists of three primary phases:

- Initial diagnostic phase
- Impact analysis, evaluation and solution development phase
- Implementation and review phase

#### **Phase 1: Initial diagnostic**

The objective of this phase is to identify the required changes to the Company's accounting policies and practices resulting from the changeover to IFRS to determine the scope of the work effort required for the next two phases.

Phase 1 involves:

- A detailed review of all relevant IFRS standards to identify differences with the Company's current accounting policies and practices
- The separate consideration of one-time accounting policy alternatives that must be addressed at the changeover date and those accounting policy choices that will be applied on an ongoing basis in periods subsequent to the changeover to IFRS
- The prioritization of those differences that could have a more than inconsequential impact on the Company's consolidated financial statements, business processes or IT systems
- The identification of internal stakeholders and business areas that may be affected by the changeover.

Phase 2: Impact analysis, evaluation and solution development

Phase 2 will result in the design and development of detailed solutions to address the differences identified in the first phase of the changeover plan. These solutions will result in certain necessary changes to the Company's internal business processes and financial systems to comply with IFRS accounting and disclosure requirements. Phase 2 activities include:

- The evaluation of accounting policy alternatives
- The investigation, development and documentation of solutions to resolve differences identified in Phase 1, reflecting changes to existing accounting policies and practices, business processes, IT systems and internal controls
- The implementation of a change management strategy to address the information and training needs of internal and external stakeholders.

Phase 3: Implementation and review phase

This phase involves the implementation of the required changes to the Company's information systems and business policies and procedures identified in the previous phase of the plan. It will culminate in the collection of financial information necessary to prepare consolidated IFRS financial statements and audit committee approval of IFRS consolidated financial statements.

Progress towards completion of the IFRS changeover plan

The Company has completed Phase 1 of its changeover plan and has identified the differences between Canadian GAAP and IFRS that impact its consolidated financial statements. The Company's detailed analysis has identified a number of accounting differences and policy alternatives under IFRS as compared to Canadian GAAP. The

Company has also determined that its accounting policies are largely aligned with IFRS requirements in many key areas other than those set out above.

Work on phase 2 has commenced and the Company has begun assessing the impact and designing solutions to address the differences, focusing initially on those differences that may require changes to its financial systems or that are more complex or time-consuming to resolve.

Appropriate resources have been secured to complete the changeover on a timely basis according to the Company's plan. The Company is also ensuring that training needs are met and will continue to be addressed throughout the changeover period.

The Company has detailed project plans and progress reporting in place to support and communicate the changeover. At this time, the Company cannot quantify the impact that the future adoption of IFRS will have on its consolidated financial statements and operating performance measures; however, such impact may be material. Additional information will be provided as the Company moves towards the changeover date.

### **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 quarter 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.

### *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](http://www.sedar.com).