

## **SOUTH AMERICAN GOLD AND COPPER COMPANY LTD.**

**(TSX : SAG :C\$0.08)**

### **MOVING TO GOLD PRODUCTION AT PIMENTON**

South American Gold and Copper Company Ltd. has received an extensive economic and technical due diligence report prepared by Pincock, Allen & Holt that confirms the viability of the Pimenton gold mine. Pimenton, 100%-owned by SAGC, is located approximately 180 kilometers northeast of Santiago in the heart of the central Chilean copper belt. The due diligence report was prepared on behalf of a multi-lateral lending agency based in Washington, D.C. that is considering a \$2.8 million project facility for placing Pimenton back into production.

### **DUE DILIGENCE SUMMARY**

Pincock, Allen & Holt (PAH) confirmed the operating plan for starting production in March 2004 and ramping output up to approximately 46,500 gold equivalent ounces a year by 2006. PAH agreed with the initial seven year mine life projected to recover over 288,000 gold equivalent ounces and confirmed cash costs of \$166 per ounce and initial capital of \$4.0 million. A preliminary assessment of the inferred mineral resources indicates a good potential for additional resource at Pimenton.

In general, the PAH due diligence report confirms a mine plan similar to the Base Case Proteus Capital set out in its Information Memorandum dated November 6, 2002. PAH confirms slightly higher capital and lower cash operating costs, but similar overall costs to our original model.

We have updated our Base Case to reflect the changes in operating plans. However, since this is not a replica of the PAH projections, some of the numbers are slightly different. Of course, the most significant change in the past eleven months has been the gold price, so we set out our revised Base Case assuming a gold price of \$375, as opposed to \$310 used previously.

The combination of the revised operating plans and the higher gold price increases the pre-tax IRR to 163% from 108% and more than doubles the PV<sub>5</sub> to \$46.9 million from \$22.4 million.

### **Revised Base Case: US Funds**

*(updated for gold price and revised operating plans)*

	<i>Gold Price</i> 375	<b>New Base Case</b>		<b>Old Base Case</b>	<b>Change</b>	<b>Total</b>
		<b>US\$ 375</b>		<b>US\$ 310</b>	<b>Old to New</b>	<b>Change</b>
						<b>New + Gold</b>
Gold produced	(oz)	248,134	248,134	224,437	23,697	23,697
Mining rate at full capacity	(t/d)	200	200	200	-	-
Annual production at full capacity	(oz)	37,230	38,826	39,081	(255)	(1,851)
Operating life	(yrs)	7.3	7.3	7.4		
Direct operating cost (excluding royalty)	(\$/oz)	138	143	122	21	16
Total operating cost (including royalty)	(\$/oz)	169	171	149	22	20
Total cost (including capital)	(\$/oz)	186	190	183	7	3
Internal rate of return (before tax)	(%)	162%	112%	108%	4%	54%
PV0 (before tax)	(\$'000)	46,863	32,287	28,423	3,864	18,440
PV5 (before tax)	(\$'000)	46,863	25,524	22,363	3,161	24,501
PV10 (before tax)	(\$'000)	37,314	20,485	17,867	2,618	19,447

*Source: Company reports and Proteus Capital Corp. estimates*

For Previous Reports See: [www.proteuscapital.com/sagc.htm](http://www.proteuscapital.com/sagc.htm)

**SEE IMPORTANT NOTICE ON PAGE 2**

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The PAH report was reviewed by an independent "Qualified Person." However, the report does not confirm to National Instrument 43-101. For further discussion of reserves and resources pursuant to NI 43-101, please refer to the Company's filing on SEDAR and Proteus report dated November 6, 2002.

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### Stock Price: TSX- Canadian Dollars



## OVERVIEW

Exchange	Toronto	Shares out. (6.30.03)	(millions)	263.945
Symbol	SAG	Float	(%)	67%
Price (10.10.03)	(C\$) 0.080	Options & warrants	(millions)	32.430
52 week: high (1.13.03)	(C\$) 0.125	Average exercise price	(C\$)	0.114
low (21.10.02)	(C\$) 0.040	Cash (6.30.03)	(US\$ mm)	0.278
Average daily trading volume	1,212,500	Cash on option/warrant exercise	(US\$ mm)	2.736

South American Gold and Copper Company Limited (“SAGC” or the “Company”) is a Canadian mining and exploration company operating in Chile. The Company has two divisions: gold, comprising the Pimenton mine and other exploration projects under evaluation; and limestone, comprising the Cal Norte and Catedral projects.

### GOLD

- Pimenton is a high grade underground gold mine, with an average diluted grade of 18.6 grams of gold per tonne (0.55 ounces per short ton) and 1.6% copper, that was discovered by a predecessor company to SAGC and mined intermittently in the early to mid-1990s. The project is centered on a large area of intensive alteration that is believed to be the surface expression of a deep porphyry system.
- The company plans to put the high grade gold reserves into production in early 2004. Once the mine is in production, and assuming that exploration continues to be positive, the company will be in the enviable position of being able to fund exploration from operating cash flow without having to raise money in the capital markets.
- SAGC has identified seventeen alignments associated with geochemical anomalies, each of which represents a target with the potential to contain 100,000 ounces or more of minable gold. In addition, during the past year, the company has made two distinct discoveries that will be the focus of exploration during the southern-hemisphere summer season:
  - ~ Numerous additional potential high grade gold bearing veins with strongly anomalous surface outcrops occur along the ridge to the northeast of the mine.
  - ~ A large tourmaline breccia pipe to the northeast of the ridge, about three miles north-northeast of the mine, on the eastern side of the Portillo Hondo valley, which is approximately parallel to the Pimenton valley. The breccia pipe is located on the northeastern flank of the zone of alteration, extending across the property boundary to land controlled by Codelco, the Chilean state-owned mining company, which completely surrounds SAGC’s Pimenton property.
- While both discoveries are significant in themselves, perhaps the greatest importance is that, in combination with the high grade gold reserves at the existing mine, the new information lends credence to the belief that the Pimenton alteration zone is the surface expression of a deep-seated porphyry copper system. That, in turn, means that Pimenton has the potential to be a major copper-gold system.

### LIMESTONE

- Lime is an industrial mineral used in a wide variety of applications because of its strong alkalinity. As with many industrial minerals, the market tends to be localized owing to the high component of transportation in total costs. It is generally a critical component for its consumers, yet contributes little to the cost of the end product, and it is typically sold under long-term contracts.

- Approximately 52% of Chilean lime consumption is in a variety of uses in the mining industry including leaching of oxide gold ores and flotation of sulfide copper ores. By 2006, we project demand for lime in central Chile will nearly double from approximately 720 metric tonnes per day in 2002. The region already imports nearly one-third of its lime – without new local sources of supply, the region will have to import about 60% of its lime in the second half of this decade.
- SAGC has two high grade, advanced lime projects:
  - ~ Cal Norte, a proposed 180 metric tonne per day lime facility, is located approximately 200 miles north of Santiago, about 30 miles from the coast, at a moderate elevation of 2,400 feet. Its target markets include the Los Pelambres mine to the east and the El Soldado and Los Bronces mines to the south. The project comprises 1.18 million metric tonnes of 90%-plus CaCO<sub>3</sub> reserves with an additional 808,000 metric tonnes of inferred resources (estimated by John J. Selters, an independent “qualified person.”) Combined, the reserves and resources are sufficient for a mine life of approximately 20 years at planned production rates.
  - ~ Catedral, a proposed 600 metric tonne per day lime facility, is located approximately 85 miles southeast of Santiago. Its target markets include the El Teniente mine, which lies south of Santiago, and the Andina and Los Bronces mines to the north of Santiago. Mineable resources at the Catedral Mona Sur limestone deposit have been estimated by John J. Selters, an independent “qualified person,” at 23.9 million metric tonnes of 90.6% CaCO<sub>3</sub>, sufficient for more than 40 years production at planned rates.

#### VALUATION

- Our market-comparable valuation of the existing reserves and resources at Pimenton is approximately C\$63 million, or C\$0.23 per share. We estimate the PV10 of the projected cash flow from Cal Norte and Catedral to be approximately C\$44 million, or C\$0.16 per share fully diluted. As the projects come on stream and project financing begins to be paid down, the projected PV10 will increase to C\$83 million or C\$0.30 per share in five years.
- Our estimated “sum of parts” valuation (Pimenton plus the lime projects) is C\$0.39 per share, which compares with SAGC’s current share price of C\$0.08.

#### CONCLUSION

**South American Gold and Copper is transitioning into a production company from being an explorer of gold, copper and industrial minerals. Its first project, the Pimenton gold mine, is scheduled to be in production during the first quarter of calendar 2004, with production ramping up over the following twenty-four months. Meanwhile, its first industrial minerals project – Cal Norte – could be in production by mid-2005.**

**The Pimenton project also includes a top-priority exploration portfolio and we are aware that the highly experienced exploration team led by David Thomson in Santiago, which is attributed with numerous major discoveries in the Andes, is reviewing several other high-potential exploration properties.**

**The combination of stable cash flow from industrial minerals with strong metals exploration success is a well-tried model that has worked successfully for companies such as RTZ plc and, previously, for Consolidated Gold Fields plc. We believe that South American Gold and is now positioned to become an established operating company with sufficient cash flow to fund future exploration internally.**

Pimenton is located in the heart of the central Chilean copper belt. The Andina and Disputada de Los Condes/Los Bronce mines, which lie 70 kilometers to the south, and the Pelambres mine, which lies 90 km to the north of Pimenton, each feature prominent copper bearing tourmaline breccia pipes together with other porphyry copper mineralization, and are found at similar topographic elevations.





Pimenton, 100% owned, is located about 125 kilometers (75 miles) north of Santiago – 175 kilometers (105 miles) by road – close to the border with Argentina. Access is from the main north-south highway that runs the length of Chile, through Santiago to the south and Mendoza to the north, by surfaced road to the Maitenes hydroelectric plant and then by 84 km (50 miles) of gravel road to the Pimenton mine site.

The property is approximately 150 km (90 miles) from the ENAMI smelter at Ventanas which custom or toll processes copper-gold ores for many of the mines in the central Chile. The mine site is in rugged terrain, ranging in altitude from 3,000 meters at the Rio Colorado to the camp at 3,400 meters and local peaks at 4,000 meters.

### **HISTORY**

Pimenton was identified by Bernstein & Thomson Ltda. (“BTX”) in 1981 under a joint exploration program for Anglo American and Cominco. That program was discontinued in 1984 and BTX optioned the property to Newmont, which was looking for bulk-minable targets. Newmont dropped the option when, as the subject of a hostile take-over attempt in the late 1980s, it focused its efforts on Nevada. BTX started small-scale underground mining of very high grade, multi-ounce per ton direct-smelting ore from veins discovered during exploration. In 1993, BTX optioned the property to Mount Isa Mines, which was interested in the porphyry copper potential. MIM drilled four shallow holes from which it concluded that the porphyry would be too deep to be of interest. In 1995, Pimenton was vended into SAGC, which built and operated a pilot-scale plant in 1996/97, producing about 3,600 ounces of gold. The mine was placed on care-and-maintenance owing to low gold prices and a lack of working capital to bring the mine into full production.

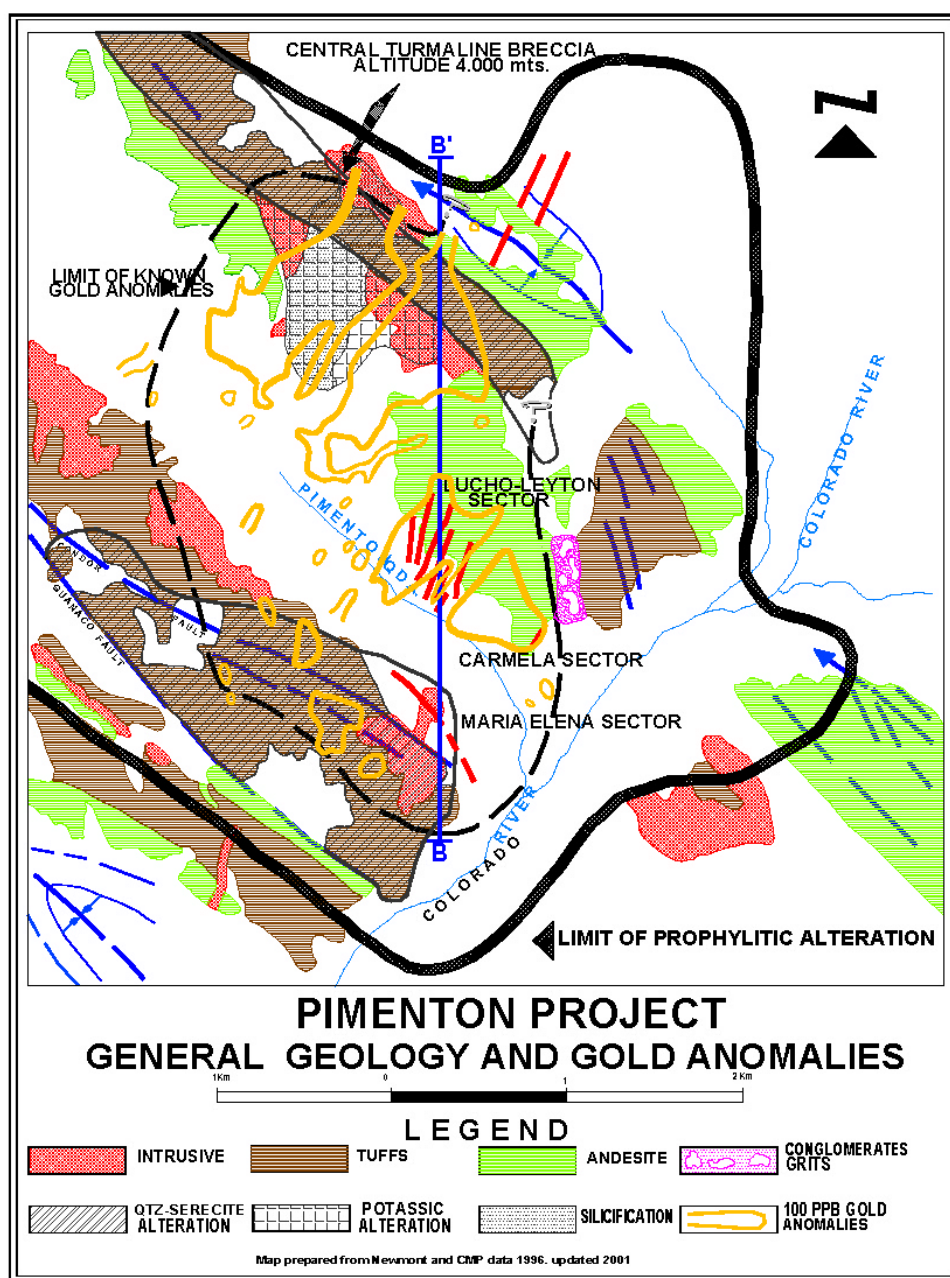
### **REGIONAL SETTING AND GEOLOGY**

The copper-gold belt that broadly parallels the Andes is well established, extending from southern Peru to south-central Chile. Until recently, the belt has been known primarily for its numerous large porphyry copper mines – Cuajone, Quellaveco and Toquepala in Peru; Chiquicamata and Escondida in northern Chile; and Andina, Disputada and El Teniente in central Chile.

There have also been many high-grade underground gold mines, often owned and operated by local mining companies as opposed to major international groups. More recently, the combination of economic and political stability combined with improved exploration techniques has led to the discovery and development of large gold mines in both Peru – Yanacocha (Newmont) and Pierina (Barrick) – and Chile – Pascua (Barrick), El Peñon (Meridian), and Fachinal (Coeur d’Alene) in southern Chile. The area to the north of Santiago hosts several underground gold mines such as Petorca (Coeur d’Alene) and Pimenton.

Regional geology is dominated by the Upper Cretaceous to Lower Tertiary Abanico Formation comprised of primarily andesitic volcanics intruded by younger plutons. This Formation is overlain by the mid-Tertiary Farellon Formation, comprised of welded tuffs and thick flows of andesitic lavas. Monzonitic granite and quartz-diorite intrusives range in size up to 50 km<sup>2</sup>.

Pimenton is in a similar geologic setting to El Indio, located some 300 kilometers to the north, which was originally discovered by the same team that found Pimenton. The ratio of gold to copper is higher at Pimenton than the average at El Indio, El Indio suffered from high concentrations of arsenic that required expensive processing, and that mine probably never lived up to its potential owing to a sequence of corporate ownership that resulted in a lack of consistent planning and vision. Nonetheless, it was a major mine.



### Pimenton valley looking southeast



There is strong northwest trending faulting, including the Condor and Guanaco faults zones to the west of the Pimenton valley, that define an area of highly altered monzonite with extensive stockwork near the faults.

Near the center of the alteration zone, primarily on the eastern side of the Pimenton valley, there are surface gold anomalies that form seventeen identified north-northeast trending zones. These zones are typically about 150 meters apart – both alignments that the company has tested are associated with steeply dipping quartz-sulfide veins and vein systems.

Initial ore development has focused on two of these seventeen identified geochemical zones or alignments – Lucho-Leyton and Michelle. The Carmela vein, some 800 meters to the southeast, was found recently, as were veins on the ridge to the east of the valley, some 1,600 meters to the north-northeast of Lucho-Leyton, which may be the northeastern extension of the Lucho-Leyton vein system.

The veins are typically near vertical, with ore-shoots showing good continuity with a minimum mining width of 0.55 meters. Mineral systems such as these typically have good vertical continuity. For example, at the El Indio gold mine, mineralization extends to a depth of over 1,000 meters.

In addition to these bonanza grade veins, there are moderate grade north-northwest trending veins typically flanked by clay or sericite alteration, as well as lower grade pyrite magnetite veins in the margins of siliceous masses. Thus, it appears that there were multiple mineralizing events within a structurally complex setting – indicating significant reserve potential.

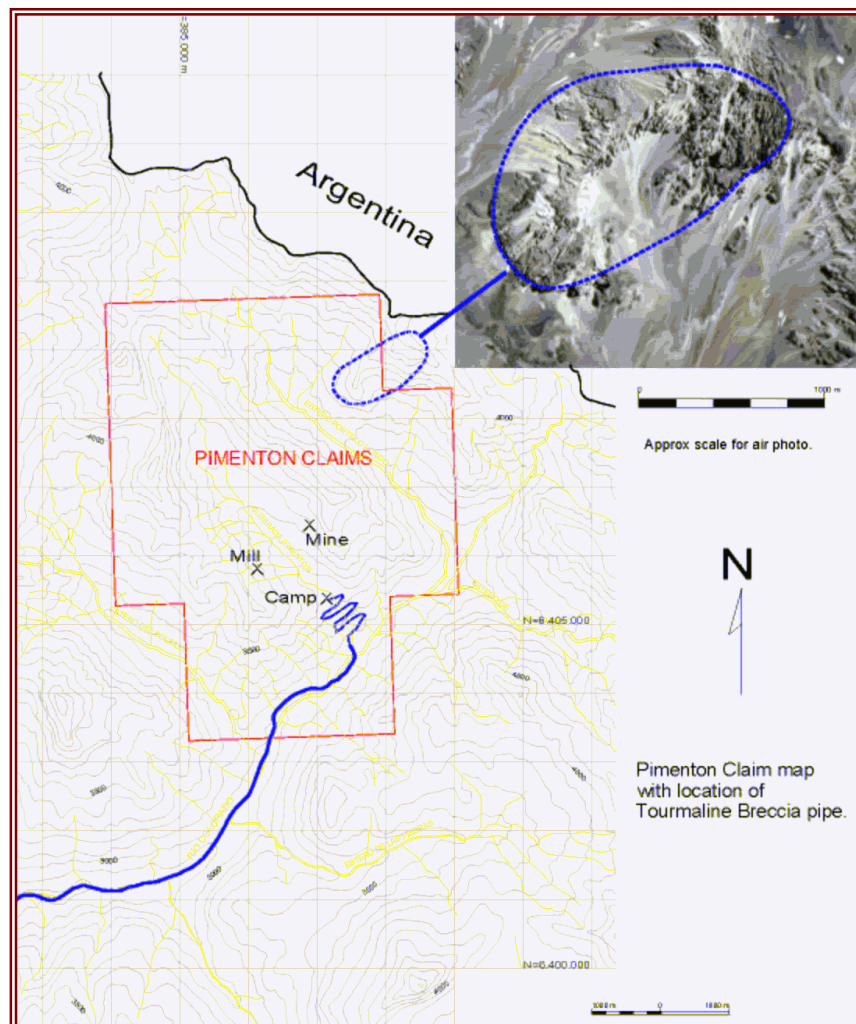


### **PIMENTON BRECCIA**

During early 2003, SAGC identified a large breccia pipe complex that outcrops at an elevation of between 3,700 meters and 4,500 meters, is about 700 meters (2,300 feet) wide and strikes northeast for 1,500 meters (5,000 feet), possibly continuing to the north beneath surface material. It is near vertical, and cuts northwesterly-striking andesites, agglomerates and tuffs that dip steeply towards the northeast. Initial sampling indicates that the pipe is a silicified and sericitized quartz porphyry intrusive that has been brecciated, tourmalinized and mineralized with coarse to very finely disseminated chalcopyrite and pyrite.

The chalcopyrite shows a strong affinity for the tourmaline, but also occurs disseminated in the quartz porphyry. The tourmaline makes up much of the matrix, follows closely spaced fractures, and also occurs very finely disseminated throughout the quartz porphyry. The remnant sulfides in the exposed cliff faces and float show strong leaching, which is likely to be shallow. Although exploration has been limited to the southwestern part of the pipe, the other part appears to be the same from visual inspection.

### **Location of Breccia Pipe**



Owing to the rugged surface of the breccia, and the fact that the surface rock has been leached, the company intends to initiate a geophysical program followed by a drill program during the upcoming Chilean summer season. Road access from the Rio Colorado valley to the southeast is fairly simple and construction is already in progress.

A large part of the alteration zone at Pimenton is in valleys that have extensive glacial cover – the company needs to conduct detailed geophysical studies throughout the zone to identify other potential targets. However, SAGC has already identified four other smaller tourmaline breccias.

It should be noted that, for some time, the Pimenton district has attracted the attention of major mining companies. Noranda has been exploring to the southeast of Pimenton, Codelco now surrounds the Pimenton claims and the property has been the subject of exploration joint ventures with majors including: Anglo American, Cominco (now Teck-Cominco), Newmont, Mount Isa Mines, and TVX (now Kinross).

Management recognizes that it might be appropriate to partner with a major once the full potential of the breccia pipes and associated mineralization has been delineated.

#### **ADDITIONAL VEIN OUTCROPS**

The exploration program also focused on the area to the north and east of the existing reserves along the Pimenton ridge that separates the Pimenton and Portillo Hondo valleys, as well as the area to the southeast of the mine. The company has discovered more than forty additional strongly leached vein structures trending north to northeast – that is, broadly parallel with the Lucho-Leyton-Michelle veins. Some of these recently identified structures are within known geochemical gold anomalies. Most of the veins are typical of Pimenton-style veins, continuing for up to 350 meters (1,150 feet).

Most of the samples contained anomalous gold, with several samples in excess of 1.0 gram of gold per metric ton (0.03 oz/st). The first few feet tend to be strongly leached so the existence of anomalous or higher grade samples at surface is highly encouraging.

The veins on the ridge may be extensions of the veins in the vicinity of the mine. The strike extension from the mine through the ridge veins continues towards the newly discovered breccia pipe.

The company needs to do a lot more exploration to define the potential of the high grade mineralization. However, given the number of structures, the apparent strike length and the known vertical extent of mineralization, even conservative estimates of ore continuity indicate the potential for a multi-million ounce high grade system.

#### **POTENTIAL**

The table below demonstrates the scale of deposits that have been found in the area. Of course, it is far too early to draw any conclusions about the potential at Pimenton. However, the physical dimensions of the breccia pipe, and the overall size of the alteration zone, are consistent with a major system.

Project	Operator/owner	Production started	Altitude (ft)	Annual copper production (million lbs)	Average copper grade (Cu%)	Annual copper revenues at \$0.73/lb (\$ million)
Pelambres	Antofagasta	1999	12,000	717	0.91%	523
Andina	Codelco	1970	11,500	550	1.09%	402
Disputada / Los Bronces	Anglo American	1925	11,500	408	1.03%	298
Pimenton	SAGC		12,300	n/a	n/a	n/a

### RESERVES & RESOURCES

During the past twenty years or so, the mining community has been focused on bulk-minable, open pit deposits where the reserves can be well defined before commencing operations. High grade vein systems such as Pimenton do not fit this model. Reserves, defined as ore-blocks with drilling or sampling on each side, are proved-up from underground workings as mining progresses. The overall scale of the system can be identified by relatively wide-spaced drilling that demonstrates continuity of structure and mineralization down dip and along strike. However, it would be prohibitively expensive to prove-up reserves from surface or from underground development.

There are many well documented cases of vein mines that have operated for many years which have never had more than a few years of reserves blocked up at any time – the Homestake mine at Lead, South Dakota is a good example.

### MINING AND MILLING

Initially, primary mine access will at the 3390 level. An adit will be driven to the Lucho-Leyton veins and on to the Michelle vein. Highly-selective overhand cut-and-fill mining with resuing will minimize dilution. Underground development demonstrates that Pimenton produces sufficient water to supply the internal needs. The project also holds additional water rights, so it does not face the common problem of finding a water supply that plagues so many Chilean mines.

Current plans call for underground exploration and development to test the other vein systems and explore along the strike of the initial systems. The initial plan calls for mining 70 t/d, ramping up to 200 t/d as additional ore is developed. Many underground mines run into difficulty trying to expand production too quickly – we believe production ramp-up planned at Pimenton is conservative and achievable.

Levels below 3390 will be developed progressively deeper from portals constructed lower than the existing camp in the Rio Colorado valley, which descends to an elevation of about 3,000 meters. The Company's plans include the possibility of driving a 1,000-meter adit from the 3200-level entry at the Carmela vein. These routes will provide underground access to exploration targets and will intersect additional vein structures.

## FINANCIAL ANALYSIS

	Total / Average	Year							
		2003	2004	2005	2006	2007	2008	2009	2010
<b>Resources at start of period</b>									
Tonnes (t)	466,538	-	466,538	439,538	387,038	317,038	247,038	177,038	107,038
Gold grade (g/t)	18.58	18.58	18.58	18.58	18.58	18.58	18.58	18.58	18.58
Copper grade (%)	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%
<b>Mining operation</b>									
Operating days (d)	2,555	-	270	350	350	350	350	350	350
Tonnes milled per day (t/d)	183	-	100	150	200	200	200	200	200
Tonnes milled (t)	466,538	-	27,000	52,500	70,000	70,000	70,000	70,000	70,000
Gold grade mined (g/t)	18.58	18.58	18.58	18.58	18.58	18.58	18.58	18.58	18.58
Copper grade mined (%)	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%
<b>Revenue</b>									
Gold (\$'000)	93,050	-	5,385	10,471	13,961	13,961	13,961	13,961	13,961
Copper (\$'000)	10,685	-	618	1,202	1,603	1,603	1,603	1,603	1,603
Total (\$'000)	103,735	-	6,003	11,673	15,565	15,565	15,565	15,565	15,565
<b>Operating costs</b>									
Mining (\$'000)	26,364	376	2,323	3,309	3,681	3,681	3,681	3,681	3,681
Milling (\$'000)	8,564	26	584	951	1,267	1,267	1,267	1,267	1,267
Services (\$'000)	9,129	117	956	1,144	1,250	1,250	1,250	1,250	1,250
Reclamation	779								
Total (\$'000)	44,836	519	3,864	5,404	6,198	6,198	6,198	6,198	6,198
<b>Operating income</b> (\$'000)	58,899	(519)	2,140	6,269	9,366	9,366	9,366	9,366	9,366
<b>Royalty</b> (\$'000)	5,187	-	300	584	778	778	778	778	778
<b>General and administrative</b> (\$'000)	2,581	125	229	260	343	339	354	368	368
Cash flow before interest & tax (\$'000)	51,132	(644)	1,611	5,426	8,245	8,249	8,234	8,220	8,220
<b>Capital expenditure</b>									
Capital (\$'000)	4,268	1,143	939	925	356	227	227	227	227
Working capital (\$'000)	-	260	-	-	-	-	-	-	-
Total (\$'000)	4,268	1,403	939	925	356	227	227	227	227
Free cash flow from operations (\$'000)	46,863	(2,047)	672	4,501	7,890	8,023	8,008	7,994	7,994
Cumulative (\$'000)		(2,047)	(1,376)	3,125	11,015	19,038	27,046	35,039	43,033
<b>Cost Analysis</b>									
Direct mining cost per ounce (\$/oz)	138	-	226	150	123	123	123	123	123
Operating costs (inc. G&A and royalties) (\$/oz)	169	-	263	181	154	153	154	154	154
Capital cost per ounce (\$/oz)	17	n/a	65	33	10	6	6	6	6
Total costs (\$/oz)	186	n/a	328	214	163	160	160	160	160

Source: Company reports and Proteus Capital Corp. estimates

The table sets out our projections, based on review of the initial feasibility studies and subsequent due diligence reports. We have assumed slightly lower annual production and consequently a slightly longer initial life than PAH used in its due diligence review.

Excluding the first and last years of operation, direct cash costs are projected at \$123 per ounce. Initial life-of-mine costs including royalties and mine overhead are projected at \$169 per ounce, averaging \$153 during the middle years of operation. Since so much of the infrastructure is already in place, the total capital expenditure is only \$17 per ounce, giving a total cost – operating, royalties, overhead, and capital – of \$186 per ounce, or approximately half the current gold price.

We believe that there is an extremely good chance that SAGC will find more ore and extend the life of Pimenton well beyond 2010. There remains a possibility that there will be major exploration successes at Pimenton that will transform the property into a major gold or copper/gold project. As a highly profitable, operating mine, Pimenton will be in the enviable position of being able to self-finance any exploration at the property.



## **LIME OPERATIONS**

South American Gold and Copper Company Limited has two lime projects in central Chile: Cal Norte and Catedral. Both projects are targeting the rapidly expanding demand for lime in the central region of the country.

### **LIME**

Lime is an important industrial mineral used primarily because of its alkalinity. It is produced from limestone (calcium carbonate, or  $\text{CaCO}_3$ ) that is processed through a kiln to disassociate the lime ( $\text{CaO}$ ) from carbon dioxide ( $\text{CO}_2$ ). In Chile, lime is used primarily in the flotation of sulfide copper ores and the leaching oxide gold ores as well as in the pulp and paper industry, in agriculture, and in construction.

In central Chile, lime typically sells for between \$110 and \$120 per tonne, based on 100%  $\text{CaO}$ . The actual selling price is adjusted to reflect the purity of the lime – 78% basis free lime would sell for \$85.80 if 100% pure lime were priced at \$110.

In view of the pricing level, transportation is a significant part of the cost structure. As such, markets are regionalized – the material can be hauled over much greater distances than some industrial minerals, such as aggregates, but cannot be transported economically around the world.

**Competitive advantage is primarily defined by the quality of the lime produced, the cost to transport to market, and dependability of supply. Other important factors include the use of modern, efficient kilns and low mining costs.**

### **Chilean Lime Market**

Chile consumes in excess of 1.0 million metric tonnes of lime each year, of which approximately 52% is used by the mining industry and 31% is used in pulp and paper. The balance is consumed in agriculture (14%) and construction and other industries (3%).

Demand is increasing rapidly, driven by new gold and copper mines as well as the expansion of existing operations. Between 1998 and 2010, total consumption is expected to increase by more than 60%, driven by a near doubling in consumption in the mining industry. Central Chile (Regions IV, V, VI and Metropolitan Santiago) is expected to show the strongest growth, with mining consumption up 180%.

The table below sets out consumption and lime production capacity, split between the northern, central and southern sections of the country. We have not included projected production from SAGC's projects in this analysis. Without this production, Chile could swing from having approximately 116,000 tonnes of capacity over and above consumption in 1998, to having a shortfall of capacity versus consumption in excess of 300,000 tonnes a year – or approximately 850 tonnes a day.

Of this shortfall, approximately 275,000 tonnes is projected to be in central Chile. Indeed, without SAGC's planned production, central Chilean capacity may cover only 40% of that region's demand by 2010.

### Chilean Lime Consumption and Capacity, by region

(metric tonnes per annum)

	Consumption						Capacity			Balance Surplus / (Deficit)
	Mining	Pulp & Paper	Agriculture	Industry & construction	Other	Total	Captive	Independent	Total	
<b>Northern Chile (I, II, III)</b>										
1998 consumption	268,917	-	-	5,200	-	274,117	115,500	232,000	347,500	73,383
2010 consumption	520,877	-	-	8,200	-	529,077	115,500	342,000	457,500	(71,577)
Increase	251,960	-	-	3,000	-	254,960	-	110,000 <sup>1</sup>	110,001	
	94%	n/a	n/a	58%	n/a	93%				
<b>Central Chile (IV, V, VI, Metro)</b>										
1998 consumption	175,169	-	-	24,452	1,200	200,821	72,600	176,500	249,100	48,279
2010 consumption	490,610	-	-	31,452	3,600	525,662	72,600	176,500	249,100	(276,562)
Increase	315,441	-	-	7,000	2,400	324,841	-	- <sup>2</sup>	-	
	180%	n/a	n/a	29%	n/a	162%				
<b>Southern Chile (VII to XII)</b>										
1998 consumption	88,036	313,000	142,500	1,500	2,100	547,136	541,200	-	541,200	(5,936)
2010 consumption	88,036	406,000	164,000	6,500	3,100	667,636	661,200	-	661,200	(6,436)
Increase	-	93,000	21,500	5,000	1,000	120,500	120,000 <sup>3</sup>	-	120,000	
	0%	30%	15%	333%	48%	22%				
<b>Total</b>										
1998 consumption	532,122	313,000	142,500	31,152	3,300	1,022,074	729,300	408,500	1,137,800	115,726
2010 consumption	1,048,202	406,000	164,000	46,152	6,700	1,671,054	849,300	518,500	1,367,801	(303,253)
Increase	516,080	93,000	21,500	15,000	3,400	648,980	120,000	110,000	230,001	
	97%	30%	15%	48%	103%	63%				

Notes: 1 Replacement and expansion of Inacasa rotary kiln

2 Excludes Cal Norte and Catedral

3 Assumed expansion of captive capacity

Source: Proteus Capital and SAGC estimates

### Consumption

There are several major mine expansions or new mining projects currently underway in central Chile that will have a significant effect on the demand for lime:

- El Teniente: expansion of concentrate capacity is expected to add 110 tonnes per day; environmental treatment of acid and gasses is expected to increase lime consumption by 150 tonnes per day.
- Los Pelambres: the mine started production in 1999 and has just completed an initial expansion, taking lime consumption to 136 tonnes per day. A further expansion, requiring an additional 45 tonnes per day is under consideration by Antofagasta Holdings and its partners, Nippon Mining and Mitsubishi.
- Andina: CODELCO is considering doubling the capacity of Andina, which would double lime consumption from 110 tonnes per day. Lime to support current operations is being imported from Jachal in Argentina.
- Pachon: Noranda is continuing to consider development of the Pachon mine that, while located in Argentina, would be operated and supported from Chile. Lime consumption would be approximately 150 tonnes per day.

In addition, Barrick Gold is considering development of the Pascua gold leach project in the southern part of Region III, technically outside central Chile and included in our consumption projections for northern Chile in the table above. The cyanide leach circuit could require approximately 600 tonnes of lime per day.

## Supply

There are currently two significant independent lime producers in Chile – Inacesa and Soprocal – that are related through common ownership. Inacesa is focused on northern Chile, where it operates plants near Antofagasta and Copiapó.

### Lime Supply and Demand: central Chile

(tonnes per day)

	2001 (actual)	2002 (estimated)	2003 (projected)	2004 (projected)	2005 (projected)	2006 (projected)	2007 (projected)	2008 (projected)
<b>Production</b>								
Los Lirios	220	220	220	220	220	220	220	220
Melipilla	350	350	350	350	350	350	350	350
Total	570	570	570	570	570	570	570	570
<b>Consumption</b>								
Pelambres	115	136	136	136	180	180	180	180
El Teniente	250	250	250	360	510	510	510	510
Soldado	10	10	10	10	10	-	-	-
Andina	110	110	110	110	110	220	220	220
Los Bronces	170	170	238	238	238	238	238	238
Las Tortolas	42	42	84	84	84	84	84	84
Pachon	-	-	-	-	-	150	150	150
Tambo	25	-	-	-	-	-	-	-
Total	722	718	828	938	1,132	1,382	1,382	1,382
<b>Shortfall without SAGC</b>	(152)	(148)	(258)	(368)	(562)	(812)	(812)	(812)
Imports as a percentage of demand	21%	21%	31%	39%	50%	59%	59%	59%
<b>South American Gold and Copper</b>								
Cal Norte	-	-	-	-	89	179	179	179
Catedral	-	-	-	-	-	60	601	601
Total	-	-	-	-	89	239	780	780
<b>Shortfall with SAGC</b>	(152)	(148)	(258)	(368)	(473)	(573)	(32)	(32)

Source: Proteus Capital and SAGC estimates

## Imports

Chile imports lime, primarily from Argentina and Colombia. Colombian lime is almost exclusively restricted to the far north of Chile, while Argentina transports lime across the Andes to the central region.

There are three Argentinean lime plants that are relevant to the Chilean market: Volcán, Tea, and Pacífico. Volcán and Tea are located north of San Juan, Argentina and approximately 650 road miles to Los Pelambres in Chile. Volcán is family owned with capacity of 120,000 tonnes a year. Tea is larger, with capacity of 230,000 tonnes, supplying a part of Los Bronces in Chile and the domestic Argentinean industry as well as La Alumbreira copper mine located about 400 miles north of the Tea plant in Argentina. Pacífico, located further north near San Juan de Jachal, Argentina (due east of La Serena, Chile), is controlled by Soprocal. The bulk of its 180 tonne per day capacity is exported to Andina.

Compared with SAGC's projects, these plants face additional transport costs of \$30 to \$40 per tonne to deliver to the major gold and copper mines in Chile. In addition, transportation across the Andes is unreliable, especially in winter.

**Price**

The lime price is quoted basis 100% CaO – the actual price is then adjusted to reflect the purity. Dedicated facilities do not post prices and a lot of independent production is sold under long-term contracts, the terms of which are often confidential. As with any industrial mineral, there can be a large spread between published prices (which tend to change very infrequently) and actual transaction prices.

Typical pricing is currently about \$110 per tonne delivered to the customer – compared with \$120 to \$140 per tonne in 2001 and published prices of \$150 per tonne FOB the producer's plant. The price softening reflects imports of Colombian and Argentinean material.

In view of the projected supply deficit, we believe it is likely that prices will at least return to 2001 levels. However, our Base Case and the Company's feasibility studies assume continuation of the current \$110 per tonne price structure.

**CAL NORTE**

Minera Cal Norte SA, which owns the Hornito and Ceci Tres limestone mines in the Quelón valley, is currently 60% directly owned by SAGC – the remaining 40% is owned by related parties and will be acquired by SAGC on favorable terms, including a deferred payment basis. The mines are located approximately 200 miles north of Santiago in the moderate terrain of the Chilean coastal range, at an elevation of approximately 2,400 feet, about thirty miles inland from the coastline. The area is semi-arid with sparse desert vegetation.

The proposed plant site location and mines are accessed by four miles of dirt road from Los Pozos, which is 27 miles from the Central Highway, and about 17 miles from Auco, where a paved highway south to Illapel provides good access to Los Pelambres and other mining operations in the area. Los Pozos is on the Chilean power grid.

The Quelón district is an established limestone producer – the initial focus was ornamental limestone. In the early 1990s, production expanded to support the growing demand for cement, primarily from the Hornito and Ceci Tres mines. The predecessor company to Cal Norte suspended operations in 1999 in order to expand production and focus on the higher value metallurgical markets.

Quelón is near the center of the Arquero sequence, a five-mile long sequence of lower Cretaceous volcanics with interbedded marine sediments. At Hornito, the sedimentary beds strike northwest, have been uplifted to dip steeply to the west, with limestone horizons interbedded in calcareous sand and silt stones. The mantos range in thickness from about seven to nearly fifty feet. Minor post-mineral faulting offsets the mantos.

The Manto Principal at Hornito has demonstrated continuity over 1,100 feet, averaging about 23 feet wide. Several other mantos have been discovered at surface. The high grade core of the deposit, typically +/- 90% CaCO<sub>3</sub>, is generally finely crystalline, comprised of dense milk white stone with occasional porosity and some limonite veinlets.



## Reserves and Mining

Mining plans are determined by the capacity of the kiln to be constructed – it is important that the kiln operates on a continuous basis. Thus, mine capacity and scheduling are “oversized” to ensure that there are no interruptions to the supply to the kiln.

### Reserves and Resources at Cal Norte

	Measured	Indicated	Total (million tonnes)	Inferred	Grand Total	Grade (% CaCO <sub>3</sub> )
<b>Cal Norte</b>						
<b>Hornito</b>						
Manto Principal	1,045,787	320,259	1,366,046	302,259	1,668,305	90.4%
Manto 'D'			-	386,000	386,000	
Manto 'B'			-	120,000	120,000	
Total	1,045,787	320,259	1,366,046	808,259	2,174,305	
<b>Ceci Tres</b>	365,000	589,000	954,000	530,000	1,484,000	87.9%
<b>Others</b>			-	996,000	996,000	
Total/average	1,410,787	909,259	2,320,046	2,334,259	4,654,305	89.4%

Source: John J. Selters, a “Qualified Person”

Production is planned to start at the Manto Principal at the underground Hornito Mine. During previous operations, the mine produced approximately 250 tonnes per day – in order to supply the planned kiln, production will be expanded to approximately 360 tonnes per day. The mining schedule calls for a six-day week, 300-day year.

Mine access will be from a new portal at the 707-level (2,320 feet above sea level) to a decline to the 687-level. From there a ramp in the footwall will decline at minus 12° along the strike length of the manto (1,150 feet) to a switchback, then ramping back down to the other end of the orebody. The reserves extend to the 474-level, which is 1,550 feet above sea level and about 470 feet vertically below the top of the new workings.

Mining will be open stoping. Although the reserves were calculated assuming 65% recovery, SAGC expects to recover at least 85% of the rock with mining costs of approximately \$6.60 per tonne.

## CATEDRAL

Compañía Minera Catedral, which owns the Catedral project, is currently 50.1% directly owned by SAGC – the remaining 49.9% is owned by related parties and will be acquired by SAGC on favorable terms including a deferred payment basis. Compañía Minera Catedral owns large high grade limestone properties that are located in the upper Maipo valley, approximately 60 miles southeast of Santiago. Catedral comprises two separate deposits: Rino and Mona Sur.

Access to Catedral is from Vizcachas, south of Santiago, to San Gabriel by paved highway, and then approximately five miles of public gravel highway to Rio Volcán. From there, SAGC will upgrade the public gravel road to Rio Claro, a distance of about ten miles. The final 16 miles to the plant site will involve upgrading the private road, to which Minera Catedral holds a right of way, which services the Gas Andes gas pipeline from Argentina.

The Catedral limestone deposit is near the southern end of a 130-mile long, north-south trending belt of limestone in the Lo Valdez Formation that approximately follows the border between Argentina and Chile.

The Lo Valdez Formation is a sedimentary calcareous formation laid down in shallow seas during the late Jurassic and early Cretaceous period. As the Andes were uplifted, Lo Valdez became steeply dipping, and most of the formation has been eroded. Remnants comprise steep dipping beds that outcrop in the rugged terrain east of Santiago. Access to this area is limited, further restricting development.

SAGC initially identified Catedral as a potential supplier of cement grade limestone, which is typically 75% to 80%  $\text{CaCO}_3$ . However, during its review of the project, SAGC discovered high grade beds that are suitable for producing metallurgical grade lime. In addition, construction of the Gas Andes natural gas pipeline, which tracks the road SAGC built to access the area, provides a supply of energy to power a lime kiln.

The initial discovery was at Rino, where SAGC has established an in situ indicated and inferred resource of 49 million tonnes averaging 89.3%  $\text{CaCO}_3$ , of which 55% is believed to be mineable. However, subsequently SAGC discovered a second deposit – Mona Sur – which is located to the south of Rino containing an estimated 37 million tonnes resource potential grading 91.4%  $\text{CaCO}_3$ , of which 65% is considered mineable. Mona Sur comprises a series of beds within a massive outcrop that extends into the mountain.

### Reserves and Mining

The overall dimensions of Mona Sur are well understood and the grade of individual beds is typically consistent. However, SAGC will have to conduct a definition drill program comprising five large diameter core holes to establish reserves.

#### Reserves and Resources at Catedral

	Measured	Indicated	Total (million tonnes)	Inferred	Grand Total	Grade (% $\text{CaCO}_3$ )
<b>Catedral</b>						
<b>Mona Sur</b>						
Bed 1					7,371,000	93.0%
Bed 2					3,159,000	91.4%
Bed 3					6,712,875	93.0%
Bed 4					5,011,875	90.8%
Bed 5					6,693,750	89.3%
Bed 7					3,422,250	90.4%
Bed 8					4,320,000	90.8%
Total/average					36,690,750	91.4%
<b>Rino</b>						
Bed D		17,456,647	17,456,647	6,472,796	23,929,443	90.6%
Bed B		19,530,388	19,530,388	5,937,452	25,467,840	88.1%
Total/average		36,987,035	36,987,035	12,410,248	49,397,283	89.3%
Catedral Total		36,987,035	36,987,035	12,410,248	86,088,033	90.2%

Source: SAGC estimates

Mining will be underground, using open stoping. The limestone beds at Mona Sur dip steeply (75o) which should facilitate better than 65% ultimate recovery. The mine will be accessed at the 2700-level (8,850-foot elevation) with mining between this level and the top of the limestone, approximately 1,000 feet above.

In order to supply sufficient limestone to support 210,000 metric tonnes of lime production from the kiln each year, the mine will need to produce approximately 472,500 metric tonnes of limestone a year, or 1,575 tonnes per day based on a 300-day mining year.

## FINANCIAL ANALYSIS

### Financial Projections – Cal Norte and Catedral Combined

(figures in metric tonnes and US dollars)

Figures in metric tonnes and US dollars									
	Period:	2004	2005	2006	2007	2008	2009	2010	Total
Lime Production	t	-	31,319	83,687	273,136	273,136	273,136	273,136	6,180,981
INCOME STATEMENT									
Revenue		-	2,961,865	7,958,027	26,266,698	26,266,698	26,266,698	26,266,698	595,483,272
Operating costs									
Mining		-	482,850	1,132,650	3,607,838	3,607,838	3,607,838	3,607,838	82,404,404
Processing		-	855,250	1,857,733	5,331,853	5,485,854	5,485,854	5,485,854	118,710,816
Transporation		-	471,144	1,497,625	6,495,652	6,495,652	6,495,652	6,495,652	152,890,461
General & administrative		-	240,000	254,400	384,000	384,000	384,000	384,000	7,214,400
Royalty		-	-	-	-	125,275	125,275	125,275	1,481,739
Total			2,049,244	4,742,408	15,819,343	16,098,618	16,098,618	16,098,618	362,701,820
EBITDA			912,621	3,215,619	10,447,355	10,168,080	10,168,080	10,168,080	232,781,452
Depreciation			-	730,930	1,461,860	1,461,860	5,376,060	5,376,060	53,760,600
EBIT		-	912,621	2,484,689	8,985,495	8,706,220	4,792,020	4,792,020	179,020,852
Interest		373,948	1,305,621	2,170,946	2,256,039	1,894,478	1,624,460	1,362,532	14,342,728
Income before taxation		(373,948)	(393,000)	313,743	6,729,456	6,811,742	3,167,560	3,429,488	164,678,124
Taxation	17%	-	37,494	187,991	1,144,008	1,157,996	538,485	583,013	28,297,811
Net income		(373,948)	(430,494)	125,752	5,585,449	5,653,746	2,629,075	2,846,475	136,380,313
Net cash flow		(373,948)	(430,494)	856,682	7,047,309	7,115,606	8,005,135	8,222,535	190,140,913
Capital expenditure		8,680,000	16,568,767	15,328,433	1,333,000	2,008,100	618,500	596,200	53,831,000
IVA		1,357,920	1,832,994	794,412	(3,661,734)	(323,592)	-	-	-
Total		10,037,920	18,401,761	16,122,846	(2,328,734)	1,684,508	618,500	596,200	53,831,000
Free cash before financing		(10,037,920)	(17,526,634)	(13,095,217)	11,632,082	7,325,576	9,011,095	8,988,867	150,652,641
Free cash after financing		(553,948)	(4,201,761)	(7,278,251)	2,440,209	1,833,406	4,112,535	4,352,235	136,309,913

Source: Proteus Capital and SAGC estimates

On our base case assumptions, the total after tax project return to the Company from Cal Norte and Catedral is 15.7% – the rate of return on SAGC's equity is 26.8%. Total capital expenditure on the two projects is approximately \$53.7 million.

### Valuation Summary: Base Case

	Cal Norte		Catedral		SAGC Lime Division	
Project IRR	15.7%		15.6%		15.7%	
IRR to equity	28.7%		26.2%		26.8%	
PV of equity at 10.0%	Today	5 years	Today	5 years	Today	5 years
C\$	9,870,000	15,882,000	33,780,000	66,881,000	43,650,000	82,763,000
C\$/share	0.04	0.06	0.12	0.24	0.16	0.30

Source: Proteus Capital estimates

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