

## **SOUTH AMERICAN GOLD AND COPPER COMPANY LIMITED**

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### **SUMMARY OF THE PINCOCK, ALLEN & HOLT DUE DILIGENCE STUDY, DATED AUGUST 18, 2003, ENTITLED *DUE DILIGENCE OF THE RESTART OF THE PIMENTON GOLD MINE, CENTRAL CHILE.***

#### **PINCOCK, ALLEN & HOLT DUE DILIGENCE REPORT**

#### **CONFIRMED THE ECONOMIC VIABILITY OF**

#### **RESTARTING OPERATIONS AT PIMENTON GOLD MINE**

- **Mine to Produce 22,210 Gold Equivalent Ounces in First 12 months of operation starting in March 2004, increasing progressively to 46,500 Gold Equivalent Ounces per year.**
- **Average Annual Gold Equivalent Ounces produced estimated at 41,200 ounces 2004 through 2010.**
- **Project Cash Cost per ounce (before depreciation and amortization) over 7-year project life estimated at US \$166.**
- **Capital Cost to restart operations estimated at US \$4.0 million.**
- **Recovered gold equivalent ounces estimated at 288,260 over 7 year mine life.**
- **Preliminary Assessment by PAH on Inferred Mineral Resources indicates good potential for gold additional resources on the property.**
- **Project After Tax Internal Rate of Return estimated at 117% at a gold price of US \$320 per ounce.**

South American Gold and Copper Company Limited ("SAGC" or the "Company") (TSX: SAG) is pleased to announce the results of the due diligence study of the Company's plan to restart operations at its Pimenton gold mine located in the V Region, Chile. The study, entitled *Due Diligence of the Restart of the Pimenton Gold Mine, Central Chile*, dated August 18, 2003, was conducted by Pincock, Allen & Holt, Lakewood, Colorado. Mr. Raul Borrastero Senior Geologist PAH was Project Manager and Mr. Jack Haponstall was the Principal Mine Engineer on the project review and site visits. At PAH's offices in Denver, Messrs. Nelson King, Mark Madden and Tom McNamara, Principal Mining Engineer and Manager of Mining and Geology, assessed the metallurgical and milling, environmental and economic aspects of the project, respectively. Susan Poos, P.E., Senior Mining Engineer, and an independent "Qualified

Person", completed a technical review of the project report for internal quality control and quality assurance.

### **Due Diligence Study**

PAH conducted a due diligence study of the Company's plan to restart operations at its Pimenton gold project located approximately 174 kilometers northeast of Santiago, Chile, by the Company's subsidiary, Compañía Minera Pimenton (CMP). The review consisted of meetings to CMP offices in Santiago and site visits to its equipment storage facilities in Los Andes, Chile and to the Pimenton mine site to review the existing mine workings and facilities. The PAH report included a detailed review of Pimenton's (1) geology, measured and indicated reserves and inferred mineral resources, (2) the mining plan; (3) surface facilities; (4) metallurgy and processing; (5) environmental management and planning; (6) capital costs; (7) operating costs and (8) economic analysis of the project. The study also included a review of the Pimenton life of mine plans and budgets for the planned refurbishing and reopening of the mine and mill, a review of CMP's planned exploration and development programs to convert present mineral resource category ore to the mineable reserves category.

### **Development Approach**

The PAH report reviewed in detail the Company's plan to restart operations at Pimenton at an initial capital cost of US \$4,000,000 (US \$4,800,000 including sustaining capital). The CMP plan encompasses the preparation of the mine and stope development commencing on October 2003, reinstalling and increasing plant capacity to 250 metric tons per day and improving camp facilities during the period October 2003 to March 2004. During the first year of operation commencing in March 2004, the CMP plan is to operate the mill at an average of 100 metric tons of mill throughput per day increasing to an average of 150 tons per day in the second year of operation and to an average rate of 200 tons per day in the third year of operations through 2010. Gold production is estimated to be 22,210 gold equivalent ounces in 2004, increasing to 33,817 gold equivalent ounces in 2005, and to 46,448 gold equivalent ounces in years 2006 through 2010. The average expected head grade to the mill is projected at over 20 grams per tonne (0.643 ounces per tonne of ore) of equivalent gold over a mine life of 7 years for an average production of 41,200 gold equivalent ounces per year. (See Appendix to this report for the calculation of "gold equivalent ounces.")

Since placing the Pimenton mine on care and maintenance in mid-1997, the Company has maintained or recently refurbished the majority of mining equipment and milling equipment, but additional mining and processing equipment will be required for planned production increases which have been provided for in the capital budget of US \$4,000,000 for restarting operations at Pimenton (US \$4,800,000 including sustaining capital).

## Mineral Resources

### *Proven and Probable Reserves:*

PAH reviewed and agreed with Pimenton's Proven and Probable Mineral Reserves as reported in the Company's Technical Report filed on Sedar and prepared by John J. Selters, Ph. Eng., an independent qualified person, shown in Table N° 1:

**Table N° 1: Estimated Mineral Reserves as on August 2003**

	Category	Tonnes	Gold gpt	Copper %	
	Proven	17,786	18.7	1.6	
	Probable	49,992	18.7	1.6	
	Total Mineable Reserves	67,777	18.7	1.6	

\*Cutoff grade = 13.61 gpt Au equivalent at \$320/oz Au and \$0.70/lb Cu metal prices.

The PAH report stated that the cutoff grade calculated by CMP of 13.61 gpt Au equivalent is considered to be conservative, since revenues are based on 100 percent of metal being derived from third party smelted concentrates. PAH's calculation of the gold equivalent cutoff grade is 12.93 gpt Au. PAH reported that it accepts the cutoff grade as calculate by Pimenton engineers.

### *Inferred Resources*

The PAH report stated that inferred resource blocks are estimated in the same manner as measured and indicated blocks. Inferred blocks extend vertically above or below a set of measured and indicated blocks. Hence, projection distances are at 20 to 40 meters above or below the sampled intervals in a level drift.

The inferred resources at the Pimenton mine are shown by level in Tables N° 2:

**Table N° 2: Inferred Resources – Lucho Sector (by Levels)**

	Level	Total Tonnes	Gold gm/T	Copper %	AuEQ Gm/T
	3540-3560	3,572	19.8	1.5	21.9
	3510	2,688	19.7	1.7	22.1
	3470	2,188	17.8	1.4	19.8

	3430	11,701	18.3	1.6	20.4
	3390	17,080	19.1	1.6	21.4
	Totals	37,229	18.6	1.5	20.6

### ***Inferred Resources – Class B***

The PAH report stated that Pimenton calculates an additional inferred geologic resource (Class B) for general long-term projections. The total Class B inferred geologic resource consists of 171,000 tonnes at an average grade of 19.4 g/t Au and 1.6% Cu as shown in Table N° 3 below. The resource is based on diamond drill hole intersections on several veins extending below the 3390 level and projected down from the 3390 elevation to the 3185 elevation (elevation of deepest intercepts to date) using projections of strike length, ore width and metal grades including dilution from the established ore blocks on the 3430 level, which is currently the deepest level in the mine.

PAH notes that with increasing distance from existing mine level areas the amount of data used to quantify the geologic resource diminishes rapidly, with these prospective areas based largely on projections from sample points located up to two hundred meters higher. PAH considers the near existing mine level resources as inferred resources, but the more distant parts of these areas (Class B inferred resources), must be considered with less confidence. PAH believes that continued exploration of the various vein resource areas in deeper levels will result in the further identification of zones of potentially mineable mineralization as has been the case since initial development and mining began on the property.

**Table N° 3: Inferred Resources, Class B – Lucho Sector**

Level	Vein	Block Number	Strike Length Meters	Vert. Distance from Level 3390 (meters)	Vein Width meters	Total Tonnes	Gold gm/T	Copper %	Au EQ gm/t
3185	Manterola	MT1	42	205	0.82	20,444	18.0	0.4	19.6
3185	Lucho	LU1	103	205	0.65	39,732	18.5	1.1	20.0
3185	Leyton	LE1	47	205	0.60	16,943	22.5	1.4	24.5
3185	Leyton	LE3	40	205	0.68	15,872	33.1	4.6	39.3
3185	Kathy	KT1	72	205	0.59	25,080	13.1	1.9	15.7
3185	Michelle	MC1	48	205	0.62	17,457	25.6	2.8	29.4
3185	Michelle	MC2	45	205	0.62	16,510	13.2	0.7	14.1

3185	Michelle	MC3	10	205	0.55	3,270	16.3	1.2	18.0
3185	Michelle	MC4	20	205	0.74	8,811	15.1	0.9	16.3
3185	Michelle	MC5	20	205	0.58	6,922	14.8	1.2	16.4
		Totals	446	205	0.65	171,020	19.4	1.6	21.6

The PAH report states that Pimenton's short to medium term mine plan is in line with the proposed project financing which calls for a total of four years (2004 – 2007) of production. From 2008 and beyond, CMP's plan is to maintain 2007 production, cost and capital estimate figures. Planned production rates are approximately 38,000 tonnes in 2004, 55,000 tonnes in 2005 and 74,000 tonnes each year in 2006 and 2007. At these rates, a little over one and a half years of proven/probable reserves are currently available (current reserve 68,000 tonnes), of which a year and a quarter (51,000 tonnes) are from the high priority vein reserves in Leyton and Michelle, and approximately one quarter (17,000 tonnes) from the moderate priority veins of Lucho, Kathy and Manterola. The PAH report continued by stating that four years of production at these rates will require approximately 173,000 tonnes of quality resources in addition to the one and a half years of current reserves available. Table 4, below, summarizes the convertible resource in which PAH has applied a subjective discounting of the total Pimenton Inferred and Inferred Class "B" resources which quantify the higher quality resources which are supported by more data and more reliable projections and in line with what is more conventionally included as a resource. This was limited to the areas identified by PAH as moderate to high exploration and development priority. The PAH adjusted mineral resource is 161, 200 tonnes shown in Table N° 4 below.

**Table N° 4: PAH Adjusted Mineral Resources (approximately meets a 4-year Mine Plan)**

	Vein	Pimenton Resource Tonnes	PAH Adjustment Factor	PAH Adjusted Resource Tonnes
Priority of Vein Area				
High	Leyton	44,000	0.85	37,400
High	Michelle	62,000	0.85	52,700
Subtotal High Priority				90,100
Moderate	Lucho	48,000	0.75	36,000
Moderate	Kathy	30,000	0.65	19,500
Moderate	Manterola	24,000	0.65	15,600
Subtotal Moderate Priority				71,100

Total Resource	Convertible		208,000		161,200
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PAH's report stated that it believes that there is a reasonable likelihood of converting these quality-inferred resources to mineable reserves available for extraction for at least the next four years. To achieve this resource conversion will require that annual exploration and development expenditures continue at or above levels of \$550,000 per year which has been provided for in CMP's mine plan and economic projections. PAH believes that ultimately the remainder of Pimenton's resource that was not included in PAH's adjusted resource may be proved up with further development and sampling in the future.

### **Mining**

PAH reviewed in detail the mine development plan for Pimenton, which was prepared by Mr. Hector Araya, the General Manager of Compañía Minera Pimenton. PAH stated that Pimenton engineers have done a very complete and conservative estimation of unit operating costs for Pimenton and further stated that the unit costs used by CMP in its mine plan for this type mining operation (cut and full with resuing) were reasonable when compared to other narrow vein mining operations in which the resuing method of extraction is used.

The Pimenton mine was an active operation in 1996 and 1997 with approximately 12,000 tonnes of mainly development ore processed in the mill constructed at the site 1996-1997. Mine development to date has been done from four adits (tunnels) driven from surface into the Pimenton vein zone. Once a promising vein was identified through exploration and drifting on vein outcrops and drilling was conducted from the surface as well as from adit levels. At Pimenton, this process was repeated until four levels of approximately 35 – 40 meters apart had been driven. The total amount of drilling done in the exploration/development programs during the period 1996 to 1997 was about 4,200 meters. In total, approximately 4,100 meters of drifting and raises and a total 11,000 meters of drilling have been conducted at Pimenton. The area in which exploration and development have been conducted on the Lucho/Leyton sector make up less than 10% of the 4 by 5 kilometer alteration zone at Pimenton.

For the planned operations, some ore will be derived from on-vein drift and raise development. Drifts will be driven a minimum of 2.8 meters wide and 2.8 meters high, raises driven with a cross section of 1.5 X 1.5 meters, while sub-levels driven 1.2 meters wide and 2.6 meters high. Low-grade development ore will be trucked to the mill, where it will be blended in the future with ore from stopes for mill feed. In the past, development ore averaged about 6-8 g Au per tonne.

Ore is currently developed on all four levels with important reserve blocks accessible above each level. The narrow (average width 0.29 meters), near vertical veins in the Pimenton mine will be extracted using a very selective cut and fill method known as resuing. With this method, a cut of the ore only is blasted and the broken ore is removed from the stope. Then waste from the walls of the stope is blasted to fill the mined-out excavations, and provide a working floor to extract the next cut in the stope; the

remainder of the void (to within 1.8 meters of the stope back) is then filled with development waste, passed into the stope through a raise to the level above the stope.

Drilling in the stopes, and to some extent in development, will be with hand-held drills (jacklegs and stopers), and ore will be removed from stopes and sub-levels with air and electric powered winches (slushers). Drift development will be done using a jumbo drill. Ore from stoping and development will be loaded on to low-profile diesel trucks with diesel load-and-dump machines (i.e., low-profile front-end loaders). Ore from the mine will be transported by low-profile truck to a mill stockpile area for subsequent feeding to the mill ore bin with a front-end loader.

### **Mill Plant Operations**

The existing mill will be rebuilt and upgraded and capable of treating 200 tpd of run-of-mine ore by late Chilean summer 2004 and further upgraded to 250 tpd in 2005. It will then be operated at the projected capacity of about 200 tpd by the end of 2005 but at all times is expected to have the capacity to handle mine's ore dilution of 20% in the event of over- breakage during mining operations. The current plan is to produce two products: Doré metal from on-site smelting of gravity concentrates that will be trucked by armored car to Santiago for air shipment to a European gold refiner, and a flotation concentrate that will be trucked to Enami's Ventana smelter located in the V Region. At full production, the mill will produce about 12 tonnes per day (4,200 tonnes per year) of flotation concentrate assaying approximately 27 to 28% Cu, with a total content of 41,000 ounces per year of gold and 30,000 ounces of silver, split between the doré and the concentrate products. The average feed grade of ore delivered to the plant is projected to be 20.6 grams gold equivalent per tonne.

In the milling process, ore received from the mine is crushed in two stages using a jaw crusher, vibrating screen and cone crusher to 100 percent passing ½". The ore will be ground in a Hardinge conical ball mill. Ground ore will first be subjected to two stages of gravity concentration (centrifuge and table) to produce a concentrate that will be smelted on site to make Doré metal. After gravity concentration and hydrocyclone classification, the ground ore passes through a standard industrial copper rougher/regrind/cleaner flotation circuit to produce flotation concentrate. Flotation concentrates will be filtered and dried prior to trucking to the Enami smelter.

During the rebuilding of the mill, it is planned to initially expand the capacity from the current 120 tpd to 200 tpd and subsequently during 2005 to 250 tpd. The throughput of the crushing plant will be increased from its present capacity of 120 tpd to the 200 tpd with the addition of a vibrating screen, cone crusher and conveyor/feeder system. The grinding and flotation circuits have adequate capacity for the 200-tpd rate, and will require minor adjustments for 250 tpd.

Pulp sampler, a weigh-scale and conveyor, a tramp-steel magnet, a concentrate thickener, and a concentrate dryer are the major new equipment additions also planned for the 200-tpd plant.

## **Metallurgical Forecast Review**

PAH reviewed the recent work completed by CMP's processing consultant (G. W. Bossard) and found the conclusions obtained as reasonable based upon the samples tested and the procedures utilized.

The PAH report stated that tests were performed on a composite of three typical ore samples taken from the vein in the development headings of the Pimenton mine. The ore samples composite assayed 20 gpt gold, 14 gpt silver and 1.14 percent copper. Flotation tests were performed at various grind sizes (45 to 65 percent passing 200 mesh) to determine the optimum fineness for flotation concentration. Test results indicate that the ore should be ground to about 60 percent passing 200 mesh. Copper recoveries in the rougher flotation concentrate, at the desired grind size, were excellent and about 98 percent. The rougher concentrates were subjected to two stages of open-circuit cleaner flotation resulting in copper concentrate grades of up to 23 percent copper. Gold recoveries in rougher concentrates were about 88 percent and gold grades in the cleaner concentrates were about 280 gpt.

Gravity concentration tests on the same material at JACOL, a Santiago-based Knelson concentrator agent, indicated that about 62 percent of the gold could be recovered using the centrifugal concentrator into a gravity concentrate that equaled 0.75 percent of the original sample weight and assayed about 1,500 gpt gold. The test also indicated that approximately 52 percent of the gold was recovered into a gravity concentrate that equaled 0.27 percent of the sample weight and assayed 3,500 gpt gold. This testing lends support to the possibility for recovering a good portion of the gold into gravity concentrate that can be smelted on the site to produce gold dore. Pimenton is also evaluating the use of an Acacia Reactor a new equipment developed by Knelson to produce refined gold product and improve the security of the gold ore production facility.

PAH recommended that Pimenton perform several additional metallurgical tests to simulate the planned milling operation sequence. Pimenton plans to have these additional tests performed in October 2003 to confirm their projections. PAH believes that the metallurgical projections used in the project economic analysis are reasonable and achievable and that the additional tests will assist in deciding the final configuration of the gravity and flotation circuit to lend more support for the anticipated metal recovery projections.

PAH reported that Pimenton's gold recovery projections used in the plans reviewed by PAH used are for 33 percent into the gravity concentrate and 59 percent into the flotation concentrate (total of 92 percent). Historical plant results indicated that gold recoveries might increase with higher feed grades. Recent gravity tests indicated higher gold recoveries than the projections. However, flotation tests did not support totally that theory with gold recoveries actually being similar to moderate feed grades of the past at about 88 percent.

PAH's report also showed that copper flotation recoveries going forward should be better than historical results, most likely due to the implementation of finer grading, therefore the projections used by Pimenton for copper recovery of 90 percent are reasonable, depending upon the number of cleaning stages needed to produce good

quality concentrates. Additional testing should include a third cleaning stage to confirm the current projections of 27 to 28 percent copper grades.

A statistical review of mill daily reports by the Pimenton process consultant (Mr. W. G. Bossard) for the Pimenton concentrator with reference to gold recovery for the operating period 1996-1997 established a relationship between final gold recovery in the flotation concentrate and plant feed gold assay to be as follows:

**Table N° 5**

<u>FEED ASSAY GMS/TON</u>	<u>NO. SAMPLES</u>	<u>RECOVERY Au</u>
4.02	34	81.5%
7.15	45	86.3%
12.20	17	91.4%
22.28	<u>1</u>	94.7%
Total	97	

Mr. Bossard's report also stated that the available information from the previous mill operations indicates that gold recovery will increase with an increase in grade approximately on a linear basis.

### **Environmental**

The Pimenton mine operated previously from 1996 until mid-1997. At that time, Chilean environmental standards were evolving, and were not as comprehensive as they are currently. The project has been reviewed for consistency with both Chilean and World Bank standards. Because the project is not in operation, this review consisted of evaluating proposed management strategies. In general, no significant environmental issues were identified with this project.

Permits for operation of the mine and tailings facility used during the previous operation have been verified as being in force for the proposed mining activities by SERNAGEOMIN, the Chilean government mining department responsible for all mining activities in Chile. The existing tailings facility, as well as one planned expansion is included in the existing permits.

Additional or renewal of prior permits will be required before commencement of operations. These permits include:

- Domestic wastewater discharge system,
- Drinking water treatment station, and
- Domestic and industrial solid waste disposal.

The design and engineering required for the renewal of these permits is currently underway or included in the mine development schedule. Typical permit approval time by the regional government for these types of permits is 1 to 2 months, which should not impact the mine development schedule.

Environmental baseline studies have been performed at the project site. At the time the mine was initially placed into production, Chilean mining laws did not require as complete an environment impact assessment process for this project as would be required under current Chilean regulations. Because the proposed mining is a continuation of the previous mining operation, no new environment impact statement is required.

Pimenton has voluntarily performed an environmental impact assessment, which was completed in August 2003 to identify potential adverse impacts that may be attributable to this project. Because of the location and elevation of the mine site, vegetation in the area is extremely limited. Consequently, impacts to aquatic and terrestrial habitats, threatened and endangered species and other aspects of the natural environment are considered to be negligible. Socio-economic impacts identified included positive benefits associated with additional employment and economic stimulus to the region, while negative impacts included increased road traffic.

The closure and site reclamation cost included in the Pimenton economic projections and mine plan consist of the following:

- Sealing of the mine portals;
- Removal of the mill, buildings and equipment;
- Removal of the camp and support facilities;
- Capping of the tailings pond;
- Capping of any surface waste rock dumps;
- Capping of the domestic and industrial landfills; and
- Post closure care and monitoring.

### **Implementation**

The major milestones for the implementation of the Pimenton mine startup are shown in the following table No 6:

**Table No 6: Project Development Schedule**

YEAR	MONTH	MILESTONE
2003	June	Initiate financing negotiations and complete internal project study.
		Initiate project design for mill and camp building and obtain equipment quotes.
	July	Refurbish mine and plant equipment.
	August	Have mill and mine equipment and components ready for transportation,

		<p>Final review of structures for camp and mill building.</p> <p>Finalize process selection for mine for mine, maintenance and service personnel.</p> <p>Road opening and repairs as weather permits.</p>
	September	<p>Finalize road opening and repair.</p> <p>Ship all equipment, components and structures to the mine ASAP.</p> <p>Accelerate mine preparation and development. Install equipment as required.</p> <p>Hire personnel as needed for all operations.</p> <p>Finalize quotations for plant and camp repairs.</p> <p>Finalize quotations for plant equipment installation</p>
	October	<p>Maintain road in good condition.</p> <p>Initiate camp reconstruction and plant reconstruction.</p> <p>Continue accelerate mine development and preparation.</p> <p>Continue the reconstruction and installation of mill equipment.</p>
	November	<p>Continue with work as planned.</p> <p>Finalize shop, mill and laboratory reconstruction.</p>
	December	<p>Start hiring mill personnel as needed.</p> <p>Finalize installation of mill equipment.</p> <p>Initiate mill equipment test and the startup operation.</p> <p>All operating and maintenance manual and procedures should be ready.</p>
2004	January	<p>Begin operations. Normal operations by the end of the month.</p> <p>Continue work on mine development.</p>
	February	<p>Initiate plant start-up.</p>
	March	<p>Initiate mine and mill operations.</p>
2005	January	<p>Intensify exploration with underground core drilling.</p> <p>Operations should in 135 MTPD</p> <p>By mid-year in 150 MTPD.</p> <p>By the end of the year 190 MTPD</p>

2006	January	Operation should be 195 MTPD  Investment paid back.
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## **Economics**

The total capital cost contained in CMP's original base case economic analysis was estimated to be US \$4,200,000 including sustaining capital. At the recommendation of PAH, the base case of CMP was revised (CMP Case 2 shown in Table 10 below) to include a mine closure cost accrual totaling US \$779,101 (which has been included in mine operating costs) over the period 2004 through 2010. Additionally, CMP adjusted its base case economic case to reflect PAH's recommendation to increase and to slightly adjust the timing and increase capital costs from US \$4,268,100 to US \$4,859,400, as shown in Table N° 7, below.

**Table N° 7: Summary of Capital Costs (Period 2003 – 2010)**

	Item	Estimated Cost (US\$)	
	Mine	1,361,900	
	Plant Equipment Repair and Upgrade	425,000	
	Winter Operations and Road Equipment	596,000	
	Tailing Pond Expansion	803,000	
	Administration	248,500	
	Plant Building Repairs	275,000	
	Camp Repairs	375,000	
	Electrical	206,000	
	Contingency	570,000	
	Total	US \$ 4,859,400	

The average total operating cost including SAGC's project overhead charges has been estimated to be US \$128.17 per tonne milled over the duration of the 7-year project as summarized in Table N° 8.

**Table N° 8: Cia Minera Pimenton Production and Unit Operating Costs (US\$/tonne)**

Production Year:	2004	2005	2006 to 2010	
Tonnes Milled	37,900	55,585	74,647	
Equiv. Au Oz Produced	23,549	34,538	46,382	
Unit Costs				
Mining	\$ 62.52	\$ 60.71	\$ 50.30	
Milling	\$ 15.72	\$ 17.45	\$ 17.30	
Admin. & Services	\$ 25.73	\$ 21.02	\$ 17.06	
Sub-Total Site Costs	\$ 103.96	\$ 99.19	\$ 84.67	
Marketing	\$ 15.93	\$ 17.56	\$ 17.80	
Other Costs				
Santiago Office	\$ 6.16	\$ 4.77	\$ 4.69	
Royalties	\$ 4.20	\$ 11.64	\$ 9.02	
NY Office & Mining Leases	\$ 10.82	\$ 8.55	\$ 6.70	
Sub-Total Other Costs	\$ 21.18	\$ 24.96	\$ 20.41	
Grand Totals	\$ 142.07	\$ 141.70	\$ 122.68	

The base case financial analysis prepared by PAH at a gold price of US \$320/oz and incorporating the available tax loss of US \$11,233,000 is summarized in Table N° 9. The average cash cost has been estimated to be US \$165.53 over the 7-year life of the mine. The average amount of gold produced has been estimated to be approximately 41,200 gold equivalent ounces per year commencing in 2004 through 2010.

**Table N° 9: Summary of Financial Analysis**

Activity	Estimated	
	Project Totals	
Ore milled (tonnes)	466,538	

	Equivalent recovered gold (oz)	288,264	
	Revenues (US\$)	83,856,156	
	Capital expenditures (US\$)	4,268,100	
	Mine closure costs (US\$)	779,101	
	Total Operating Cash Costs (US\$)	45,316,242	
	EBITDA (US\$)	36,139,144	
	Net income after taxes (US\$)	31,876,200	
	Project IRR	117.3	
	Project NPV @ 10% (US\$) after taxes	15,891,280	

### **Economic Analysis**

The project economic analysis contained in the PAH report is shown below:

- The Pimenton economic model (100% projectJune3-2002.xls) appears well constructed and fairly represents the project cash flow as discussed in the Preliminary Technical Report (dated April 2003). The project economics are favorable and relatively robust to potential changes (sensitivities). The project's proposed cash flow (before SAGC costs) yields an internal rate of return (IRR) of 117 percent, a discounted (at 10%) net present value of \$15.9 million, and a payback of about 18 months.
- PAH performed several sensitivities to reflect possible alternative project outcomes shown in Table N° 10, below.
- CMP Case 2 includes \$543,900 higher capital expenditures and the accrual of closure costs over the mine life versus when incurred after mine closure. The SAGC Case 2 IRR is 102% and NPV of \$14.5 million. This should be compared to CMP's Base Case economics of IRR at 113% and NPV of \$15.0 million. As indicated this is a relatively modest reduction in project economics.
- The project economics are most sensitive to ore grade reductions. A 20 percent grade reduction results in an IRR of 60 percent. A 30 percent grade reduction drops the IRR to 30 percent, still a higher return than many similar mining projects PAH has reviewed. While a 20 to 30 percent grade reduction appears large, selective mining of high-grade narrow vein gold deposits like Pimenton can commonly incur more ore dilution both from stopes and development production and therefore lower ore grade than predicted. Other natural factors could also lower ore grades versus predicted reserve estimates. SAGC developed a case to address the mine ore dilution, SAGC Case 3, that assumes mine and mill throughput are increased proportional (20%) to increased ore dilution. The SAGC Case 3 economics are much less sensitive (IRR 93%). The project's economic sensitivities are shown in Table N° 10, below

**Table N° 10: Project Economics (before SAGC overhead costs)**

Case	IRR%	NPV at 10%, US \$ millions	
Base PAH	117	15.9	
Base CMP	113	15.0	
Grade -20%	60	7.3	
Grade -30%	30	2.0	
Capital Cost +20%	104	15.2	
Capital Cost +30%	96	14.9	
Sales Price -10%	88	11.5	
Ores Tonnes -10%	90	11.8	
Operating Cost +10%	97	11.8	
Historic Recovery Rates	102	13.6	
CMP Case 2	102	14.5	
CMP Case 3	93	13.5	

- In PAH's opinion, another risk area is the estimated capital cost. The economics are far less sensitive to capital increases, with a 30 percent increase dropping the project IRR to 98percent and the NPV to \$14.9 million
- Overall, the project economics appear favorable and robust, unless a combination of negative events occurs.

PAH evaluated the ability at Pimenton to service debt in the amount of US \$2,800,000 as measured by the Debt Service Ratio (DSR). Pimenton projected cash flow covers debt payments well in all cases evaluated, except in the case where ore grade is reduced by 30 percent. SAGC has addressed this risk by developing contingency plans to mine and mill additional ore if dilution exceeds expectations.

PAH has reviewed and given its approval for the publication of this summary of its due diligence study dated August 18<sup>th</sup>, 2003 entitled "Due Diligence of the Restart of the Pimenton Gold Mine, Central Chile".

*Statements in this Summary Report that are not historical facts are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Readers are cautioned that any such statements are not guarantees of future performance and the actual developments or results may vary materially from those in these "forward-looking statements".*

# APPENDIX

## PINCOCK, ALLEN & HOLT SUMMARY

		Gold Equivalent Calculation		
				Equivalent Gold Value
Metal Content - Assays		Conversion Calculation		In Grams Per Ton
- Au in grams/ton		-	=	(Same as Ore Assay)
- Ag in grams/ton		Assay Ag grams/ton x Ag Price/Gram	=	Gold Equivalent grams/ton
		Gold Price		
- % Cu/ton		Cu Assay x 2204 lbs/mt x Cu Price US \$/lb	=	Gold Equivalent grams/ton
		Gold Price		
<u>Gold Equivalent</u>		-	=	Sum of Three (3) Items
				above expressed in Au grams/ton

### Prices Used:

Gold (Au) @ US \$320/oz

Silver (Ag) @ US \$4.71/oz

Copper (Cu) @ US \$0.70 per pound

Note: Pimenton's average head grade of gold, delivered to the mill (net of mine dilution), is estimated to be 18.6 grams gold per tonne plus 1.6% copper per ton. Silver was not used in the gold equivalent calculation in reserve estimates but was used in the calculations for net payable gold after smelter and/or refinery charges.

Mill recoveries are estimated to be: gold 92%, silver 84% and copper 91%.