SOUTH AMERICAN GOLD AND COPPER COMPANY LTD.

(TSX : SAG :C$0.08)

AN EMERGING DIVERSIFIED MINING GROUP

Achieves Full Commercial Production at Pimenton

Signs Exploration Agreement with Rio Tinto plc

Initial Exploration Success and Nearby Tordillo Property

South American Gold and Copper Company Ltd. has completed the construction and start-up of its 100%-owned Pimenton gold mine, located approximately 180 kilometers northeast of Santiago in the heart of the central Chilean copper belt. The Company recently announced that it had signed a letter of understanding with Rio Tinto under which Rio can earn a 60% operating interest in developing a potentially large-scale copper porphyry at Pimenton in exchange for completing a bankable feasibility study.

The Company is also making progress with its substantial limestone deposits. We believe the Company is now poised to establish itself as a diversified, operating mining company.

Mine start-ups are notoriously difficult, especially for small companies with limited capital or narrow-vein underground operations where ore development is critical. The ultimate test for any company is whether it can address the problems and overcome them. South American Gold and Copper commenced operations at Pimenton in the middle of 2004, helped by a mild southern hemisphere winter. During the past nine months, the mining method has changed, the mill has been modified, and ore development plans have been altered.

Going forward, what matters is that the mine is now operating at the planned rate of approximately 150 tonnes per day, the head grade is approximately on target, and the mine is now generating positive cash flow. We believe the Company is now poised to expand production and reduce unit costs.

However, while operational developments at Pimenton are important, they are overshadowed by news that Rio Tinto plc has entered into an agreement with the Company to explore the Pimenton property for a copper porphyry that may be the source of the Pimenton mineralization. Details of the agreement have not been released, other than the fact that Rio Tinto can earn a 60% operating interest by completing a bankable feasibility study. The detailed terms will give a clearer sense of Rio Tinto's level of enthusiasm for the project. What we know is that Pimenton is in the middle of an area of activity exploration by majors such as Codelco, Noranda, Phelps Dodge, and now Rio Tinto.

South American Gold and Copper has also managed to secure another large property – Tordillo – in the area. Initial exploration results are encouraging.

Finally, the limestone market in Chile appears to be heating up – the Company is one of the few that is positioned to supply demand from the mining and other industries.

We believe South American Gold and Copper is entering into a positive and exciting period in its development, supported by cash flow from Pimenton.

For Previous Reports See: 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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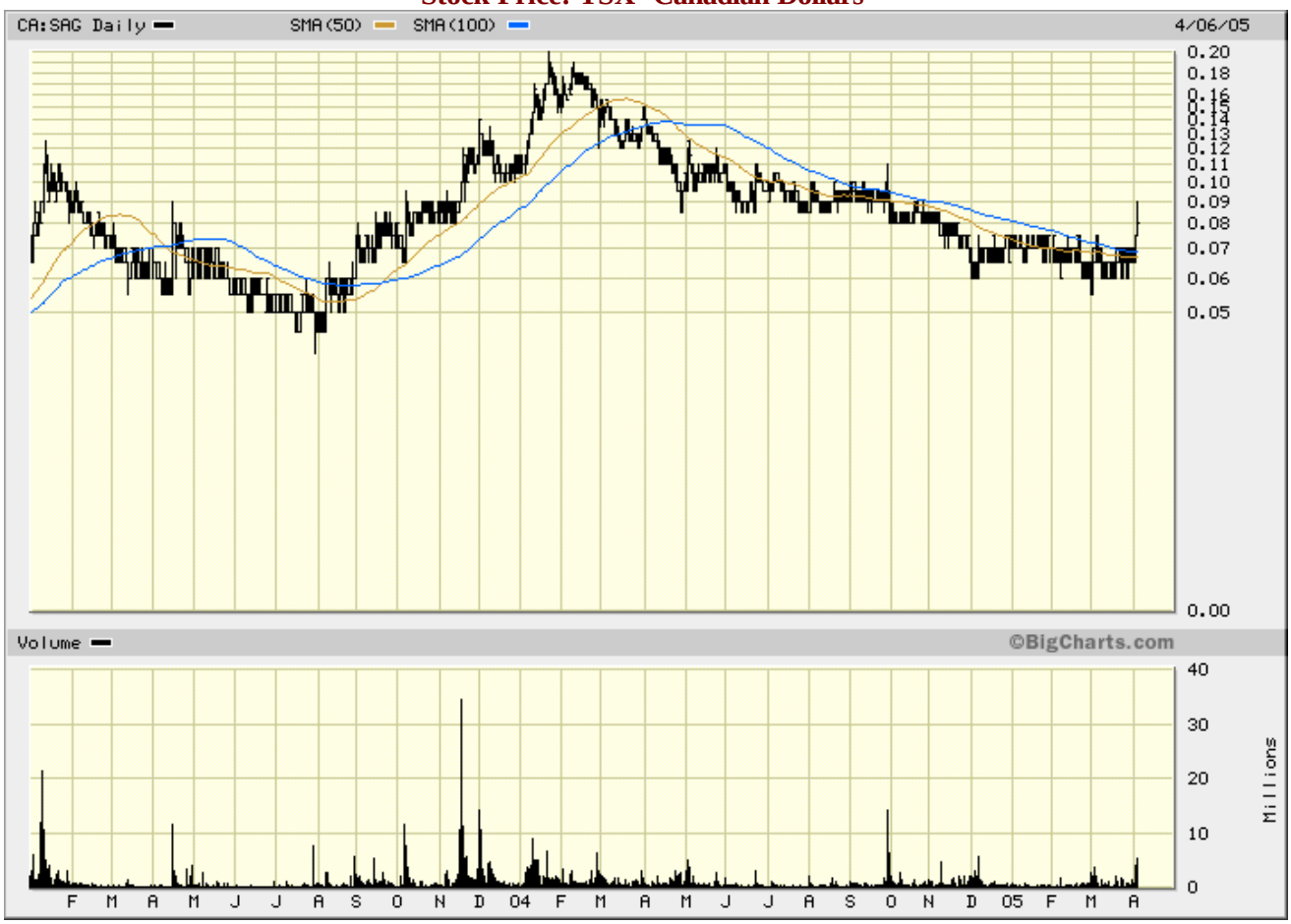
Stock Price: TSX- Canadian Dollars



OVERVIEW

Exchange		Toronto	Shares out.	(millions)	433.0
Symbol		SAG	Float	(%)	79%
Price (04.06.05)	(C$)	0.080	Warrants	(millions)	84.0
52 week: high (4.06.04)	(C$)	0.135	Average exercise price	(C$)	0.11
low (03.02.05)	(C$)	0.055	Cash & mineral receivable	(C$ mm)	1.215
Average daily trading volume		850,000	Cash on warrant exercise	(C$ mm)	9.340

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 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 commenced production in mid-2004, and the mine has recently achieved design capacity on a sustained basis. The company is now in the enviable position of being able to fund exploration from operating cash flow without having to raise money in the capital markets.
- The company discovered 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.

  The company recently announced that it had entered into a letter of understanding with Rio Tinto whereby the two parties will agree a formal exploration/development joint venture at Pimento. The specific target is one or more postulated buried porphyries. Rio is committing to completing a feasibility study in order to earn a 60% operating interest in the project.
- Initial exploration results from the nearby Tordillo project are very encouraging and indicate the potential for another high grade copper-gold system.
- Both properties are surrounded by major mining companies that are conducting exploration programs (see map on page 3).

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 $CaCO_3$ 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% $CaCO_3$, 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$62 million, or C$0.15 per share. We estimate the PV_{10} of the projected cash flow from Cal Norte and Catedral to be approximately C$43 million, or C$0.10 per share. As the projects come on stream and project financing begins to be paid down, the projected PV_{10} will increase to C$68 million or C$0.16 per share in five years.
- Our estimated "sum of parts" valuation (Pimenton plus the lime projects) is C$0.25 per share, increasing to more than C$0.31 per share over the next five years, which compares with SAGC's current share price of C$0.08.
- This valuation places no value on the Tordillo exploration project or the potential of the joint venture with Rio Tinto – if successful, the latter could dwarf the existing Pimenton mine and the limestone operations.

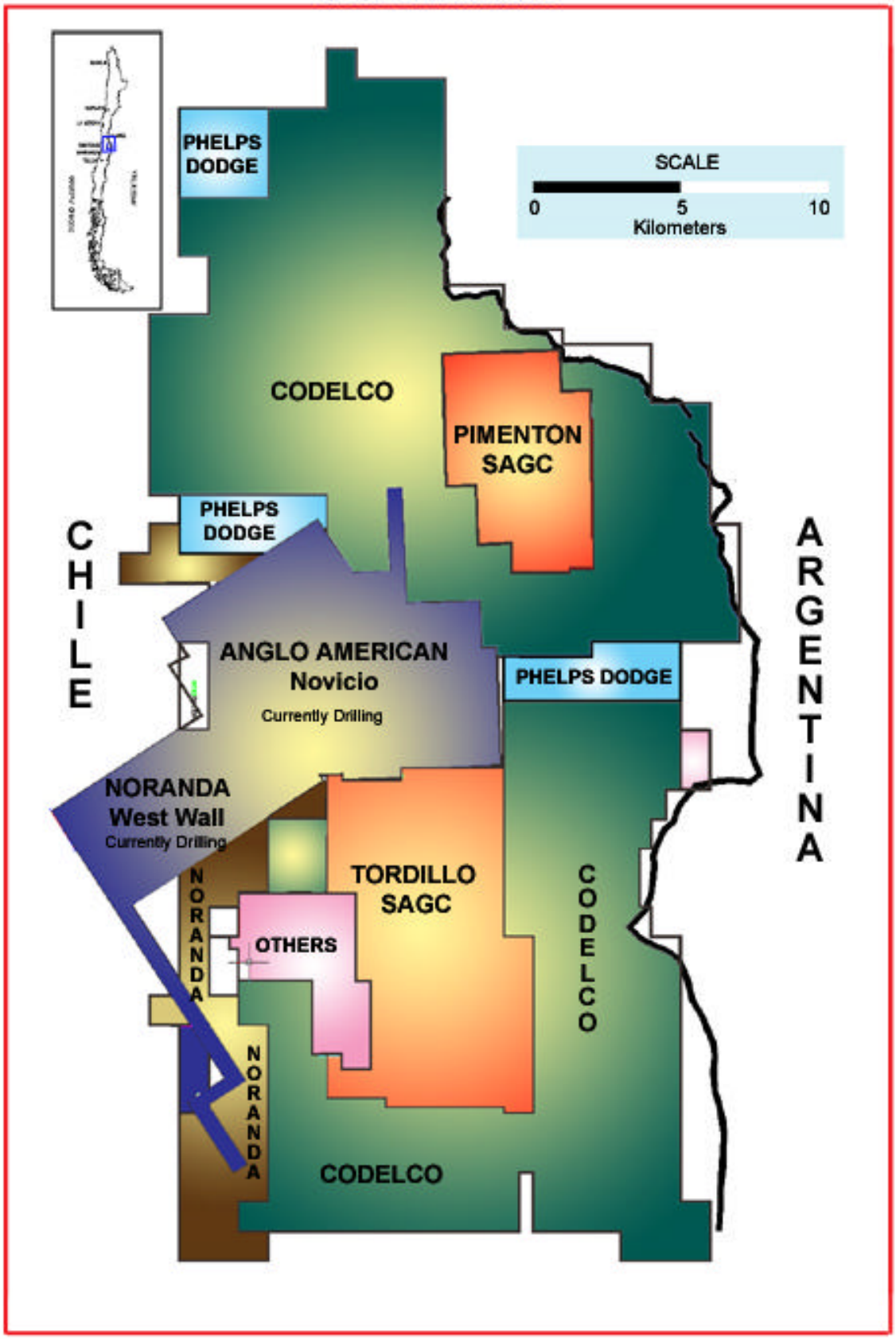
CONCLUSION

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 now achieving sustained commercial operations and production is expected to ramp up over the coming months. Meanwhile, its first industrial minerals project – Cal Norte – is progressing.

The success in developing the Pimenton exploration play to the point where it attracts the interest of a major company such as Rio Tinto is significant and demonstrates the experience of the exploration team led by David Thomson in Santiago, a team which is attributed with numerous major discoveries in the Andes.

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 Rio Tinto itself 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.

SAGC CLAIM AREA

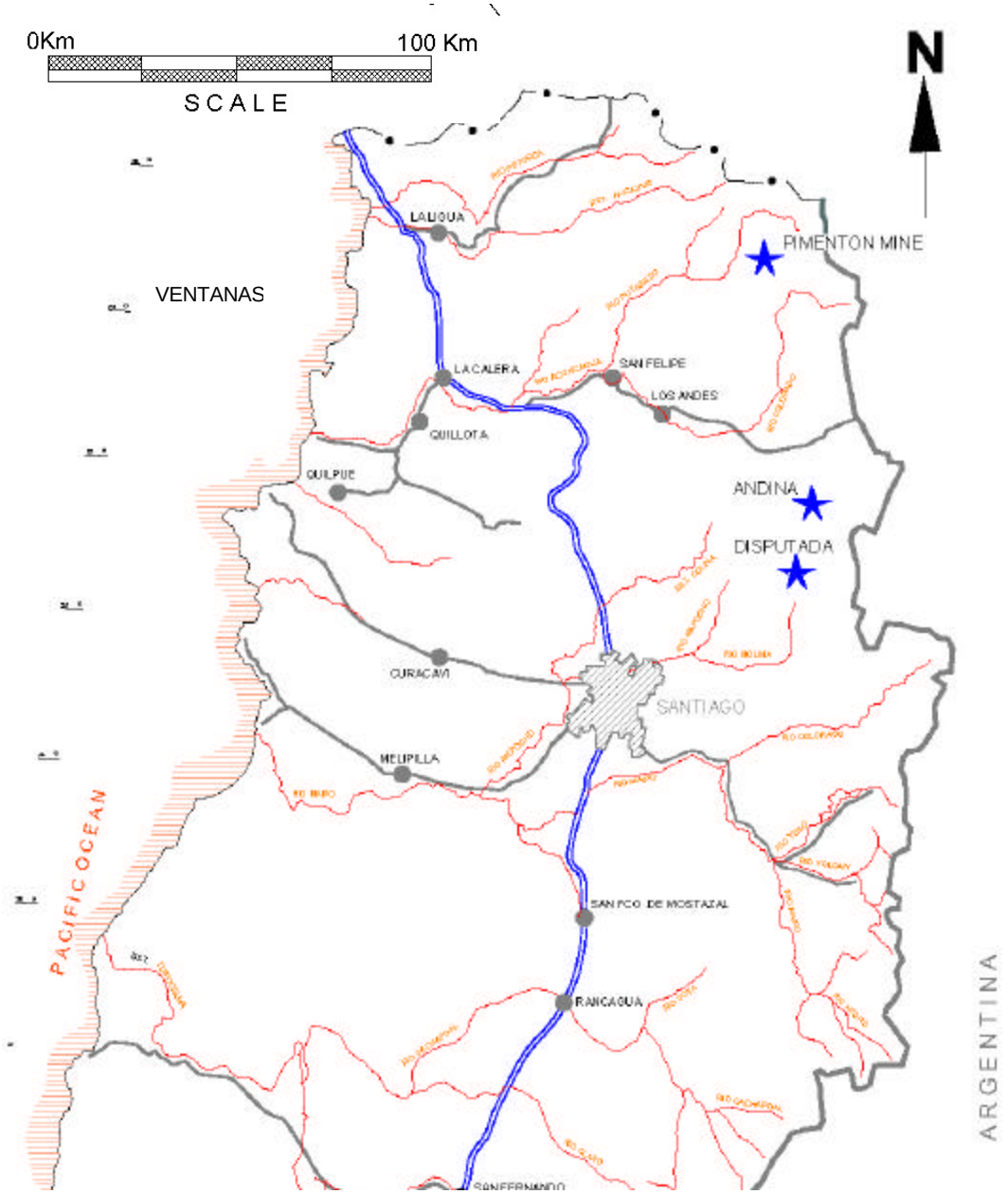


GOLD PRODUCTION & COPPER/GOLD EXPLORATION

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.

The company has recently acquired the Tordillo property located about seven miles south-southwest of Pimenton. Both are now surrounded by exploration programs of major mining companies (see map on page 3).

PIMENTON LOCATION



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-mineable 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.

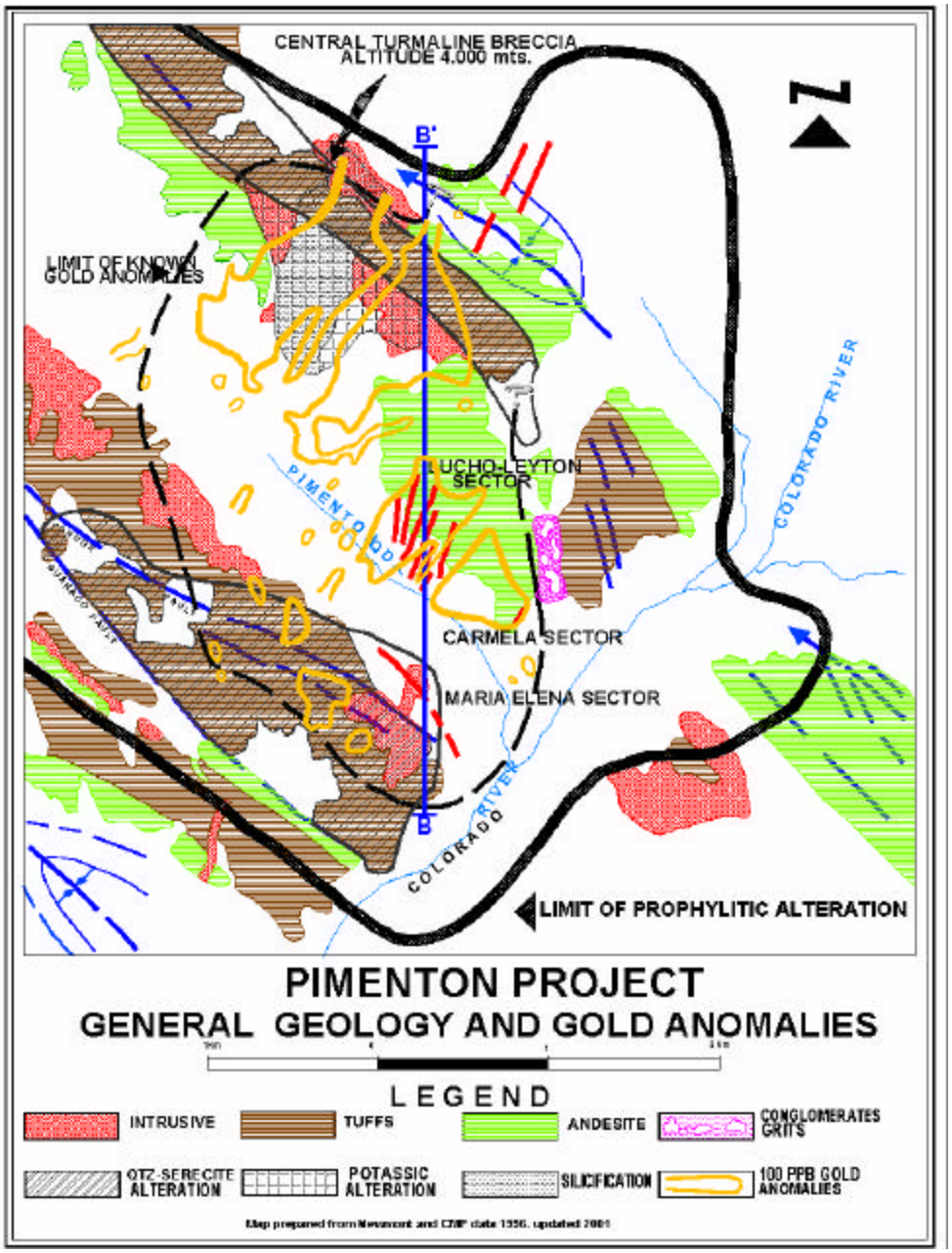
REGIONAL SETTING AND GEOLOGY

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, El Teniente and Los Pelambres 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^2.

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 0.75 meters under the current mine plan. 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.

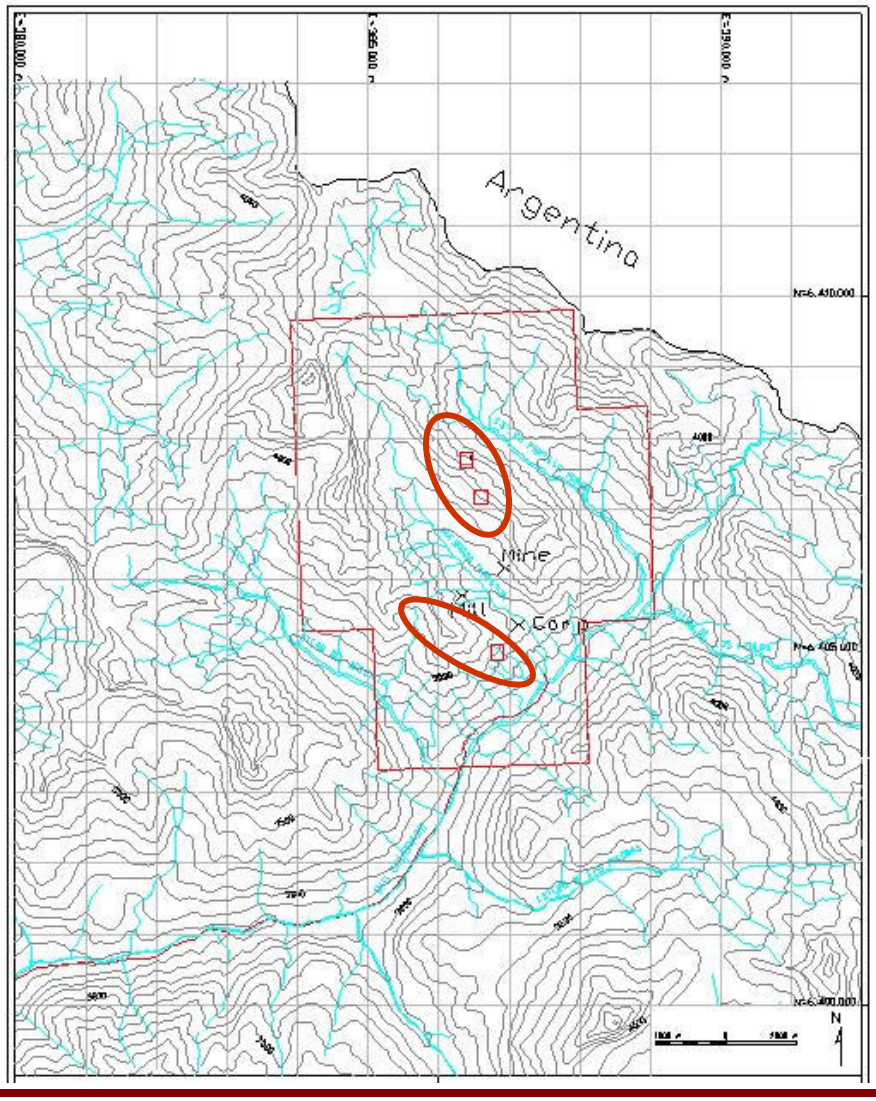
In addition to these bonanza grade veins, there are moderate grade north-northwest trending veins typically flanked by clay or sericite alteration, as well as lower grade pyrite magnetite veins in the margins of siliceous masses. Thus, it appears that there were multiple mineralizing events within a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

EXPLORATION FOR PORPHYRY

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



During 2004, the Company completed four diamond drill holes totaling 1,767 meters (approximately 5,800 feet). Two angle holes sited to check below the outcrop encountered favorably altered rocks with mineralized sections 300 to 500 meters (1,000 to 1,650 feet) below the surface copper showings. A third angle hole tested a tourmaline breccia with remnant oxidized pyrite and some trace chalcopyrite selectively concentrated in tuff interbedded with unaffected shales.

The fourth hole was vertical and confirmed sulfide intercepts that were predicted by IP and comprise disseminated pyrite with patches of trace chalcopyrite. In general, the four holes proved the wide extent of the altered tourmaline breccias with disseminated pyrite and trace copper minerals.

Quantec Geosciences ran six induced polarization (IP) lines totaling 15.9 kilometers (10 miles) – four in the Hondo Valley and two in the Pimenton Valley. This work identified four targets with good chargeability anomalies extending below the limit of penetration. These anomalies may correlate with possible bulk tonnage mineralization.

Surface exploration also found eleven new leached gold vein outcrops in the Hondo Valley, 2 to 3 kilometers (1.2 to 1.8 miles) north of the Pimenton mine area. Based on experience at the Pimenton mine, the surface leached gold values are promising and will be followed up with further exploration.

The extensive magnetometer survey identified two previously unknown strong north south breaks with possible extensions of several kilometers. Surface prospecting has found patchy gold bearing mineralization in siliceous tourmaline breccia associated with one break called the Cascade structure over widths that reach several meters and a possible length of near 2 kilometers (1.2 miles).

These results are consistent with the presence of buried porphyry copper mineralization.

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).

Rio Tinto reviewed the work completed through 2004 and visited the property on several occassions. On the basis of that review, Rio Tinto approached South American Gold and Copper regarding an exploration agreement leading to a potential joint venture earn-in which was announced in late March. Under that agreement, Rio Tinto has the right to enter into a 60:40 joint venture by completing a multi-year exploration program followed by a full feasibility study within seven years. If Rio Tinto fails to complete the program, it will not earn any interest in the project.

The initial work program is another four deep holes – Connors Drilling is scheduled to commence work in mid-April. The timing of the program will be largely determined by the onset of the Andean winter.

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-mineable, 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

Primary mine access will be at the 3390 level. An adit is being driven to the Lucho-Leyton veins and on to the Michelle vein. After initially trying highly-selective overhand cut-and-fill mining with resuing to open-stoping. Although dilution is greater, the operation is simpler and the overall efficiencies and reliability are greater. 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 mine is now operating at a sustainable 150 t/d from five stopes. 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					
			2005	2006	2007	2008	2009	2010
Metal sold								
Gold	(oz)	244,338	22,289	41,555	41,555	41,555	41,555	41,555
Copper	('000 lb)	13,128	1,198	2,233	2,233	2,233	2,233	2,233
Metal price								
Gold	($/oz)	425	425	425	425	425	425	425
Copper	($/lb)	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Revenue								
Gold	($'000)	103,844	9,473	17,661	17,661	17,661	17,661	17,661
Copper	($'000)	16,410	1,497	2,791	2,791	2,791	2,791	2,791
Total	($'000)	120,254	10,970	20,452	20,452	20,452	20,452	20,452
Operating costs								
Mining	($'000)	22,981	3,309	3,681	3,681	3,681	3,681	3,681
Milling	($'000)	7,719	951	1,267	1,267	1,267	1,267	1,267
Services	($'000)	7,824	1,144	1,250	1,250	1,250	1,250	1,250
Reclamation		779						
Total	($'000)	39,302	5,404	6,198	6,198	6,198	6,198	6,198
Operating income	($'000)	80,952	5,566	14,254	14,254	14,254	14,254	14,254
Royalty	($'000)	6,013	548	1,023	1,023	1,023	1,023	1,023
General and administative	($'000)	2,158	260	343	339	354	368	368
Cash flow before interest & tax	($'000)	72,781	4,757	12,888	12,892	12,877	12,863	12,863
Capital expenditure								
Capital	($'000)	2,186	925	356	227	227	227	227
Working capital	($'000)	-	-	-	-	-	-	-
Total	($'000)	2,186	925	356	227	227	227	227
Free cash flow from operations	($'000)	65,607	3,833	12,533	12,666	12,651	12,637	12,637
Cumulative	($'000)		3,833	16,366	29,031	41,682	54,319	66,956

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.

Direct cash costs are projected at $143 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 40% of 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.

TORDILLO

SAGC recently acquired a 100% interest in the Tordillo gold/copper prospect some 11.5 kilometers (7 miles) south southwest of Pimenton. Two outcropping structures trending northwest, measuring up to 20 meters (66 feet) across, have been identified during initial exploration. Initial sampling of separate quartz veins gave significant copper/gold values. Further systematic sampling of the structures is currently in progress.

In addition, to the south of these structures there is a 400 to 500 meter wide north-south zone that extends for over 1,600 meters, that carries disseminated and veinlet specularite and chalcopyrite within altered and brecciated intrusive. The Company plans are to run further geophysics over the structures before the Andean winter. Depending on the outcome of this work, SAGC may initiate a drill program in the southern hemisphere spring.

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 $CaCO_3$) that is processed through a kiln to disassociate the lime (CaO) from carbon dioxide (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% 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
	Mining	Pulp & Paper	Agriculture	Industry & construction	Other	Total	Captive	Independent	Total	Surplus / (Deficit)
Northern Chile (I, II, III)										
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 [1]	110,001	
	94%	n/a	n/a	58%	n/a	93%				
Central Chile (IV, V, VI, Metro)										
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	-	- [2]	-	
	180%	n/a	n/a	29%	n/a	162%				
Southern Chile (VII to XII)										
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 [3]	-	120,000	
	0%	30%	15%	333%	48%	22%				
Total										
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 Inacesa rotary kiln
2 Excludes Cal Norte and Catedral
3 Assumed expansion of capitive 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)
Production								
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
Consumption								
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
Shortfall without SAGC	(152)	(148)	(258)	(368)	(562)	(812)	(812)	(812)
Imports as a percentage of demand	21%	21%	31%	39%	50%	59%	59%	59%
South American Gold and Copper								
Cal Norte	-	-	-	-	89	179	179	179
Catedral	-	-	-	-	-	60	601	601
Total	-	-	-	-	89	239	780	780
Shortfall with SAGC	(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 Alumbrera 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% $CaCO_3$, 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 *(% CaCO3)*
Cal Norte						
Hornito						
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	
Ceci Tres	365,000	589,000	954,000	530,000	1,484,000	87.9%
Others			-	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^o 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

Compañia 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. Compañia 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% $CaCO_3$. 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% $CaCO_3$, 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% $CaCO_3$, 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 *(% CaCO3)*
Catedral						
Mona Sur						
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%
Rino						
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)

	Period:	2006	2007	2008	2009	2010	2011	2012	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	
Combined 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$	8,128,000	13,080,000	27,819,000	55,079,000	35,947,000	68,159,000
	C$/share	0.02	0.03	0.06	0.13	0.08	0.16

Source: Proteus Capital estimates

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