

**Sur American
Gold Corporation**
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005 and 2004

The interim consolidated financial statements which follow are prepared by management and are neither audited nor reviewed by the Company's auditors.

Sur American Gold Corporation

INTERIM CONSOLIDATED BALANCE SHEETS

	June 30, 2005 <u>(Unaudited)</u>	December 31, 2004 <u>(Audited)</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,339,640	\$ 2,171,284
Amounts receivable and advances	14,288	16,123
Prepaid expenses	<u>6,766</u>	<u>6,766</u>
	1,360,694	2,194,173
DEFERRED EXPLORATION COSTS (Note 3 and Schedule)	3,153,685	-
INVESTMENTS IN AND ADVANCES TO AFFILIATES (Note 3)	-	3,496,793
CAPITAL ASSETS	<u>313,870</u>	<u>49,393</u>
	<u>\$ 4,828,249</u>	<u>\$ 5,740,359</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 421,829	\$ 293,132
Loans payable	<u>43,936</u>	<u>43,936</u>
	465,765	337,068
NON-CONTROLLING INTEREST IN SUBSIDIARIES	<u>339,981</u>	<u>211,326</u>
	<u>805,746</u>	<u>548,394</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 4)	13,700,863	13,574,085
CONTRIBUTED SURPLUS	1,947,612	1,966,290
RETAINED EARNINGS (DEFICIT)	<u>(11,625,972)</u>	<u>(10,348,410)</u>
	<u>4,022,503</u>	<u>5,191,965</u>
	<u>\$ 4,828,249</u>	<u>\$ 5,740,359</u>
GOING CONCERN AND NATURE OF OPERATIONS (Note 1)		
SUBSEQUENT EVENT (Note 9)		

See accompanying summary of accounting policies and notes to interim consolidated financial statements.

Approved by the Board “J. Rennie Blair” Director “Alicia Nicholson” Director

Sur American Gold Corporation

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
EXPENSES				
Bank charges and interest	922	827	\$ 1,200	\$ 1,330
Depreciation and amortization	4,298	4,177	8,596	9,144
Foreign exchange (gain) loss	112,303	(32,182)	114,909	(25,728)
Interest on loan payable	3,658	10,259	6,065	21,519
Legal and professional	55,042	30,711	78,006	50,602
Office and miscellaneous	8,369	8,542	15,438	15,380
Regulatory and shareholder costs	44,614	60,237	81,847	102,941
Rent	8,750	6,000	18,875	12,000
Salaries and benefits	22,359	16,061	42,081	48,263
Telephone and fax	2,680	1,601	5,141	3,584
Travel and accommodations	2,987	9,640	7,491	11,040
Stock-based compensation	-	-	-	1,445,095
INCOME (LOSS) BEFORE OTHER ITEM	<u>(265,982)</u>	<u>(115,873)</u>	<u>(379,649)</u>	<u>(1,695,170)</u>
OTHER ITEM				
Interest income	403	113,885	846	219,116
NET INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	<u>(265,579)</u>	<u>(1,988)</u>	<u>(378,803)</u>	<u>(1,476,054)</u>
NON-CONTROLLING INTEREST	<u>1,941</u>	<u>-</u>	<u>2,281</u>	<u>-</u>
NET INCOME (LOSS) FOR THE PERIOD	<u>(263,638)</u>	<u>(1,988)</u>	<u>(376,522)</u>	<u>(1,476,054)</u>
RETAINED EARNINGS (DEFICIT), beginning of period	<u>(11,362,334)</u>	<u>(10,380,477)</u>	<u>(10,348,410)</u>	<u>(8,906,411)</u>
	(11,625,972)	(10,382,465)	(10,724,932)	(10,382,465)
CUMULATIVE EFFECT OF ADOPTION OF NEW ACCOUNTING STANDARD (Note 3)	<u>-</u>	<u>-</u>	<u>(901,040)</u>	<u>-</u>
RETAINED EARNINGS (DEFICIT), end of period	\$ <u>(11,625,972)</u>	\$ <u>(10,382,465)</u>	\$ <u>(11,625,972)</u>	\$ <u>(10,382,465)</u>
EARNINGS (LOSS) PER SHARE, basic and diluted	\$ <u>(0.00)</u>	\$ <u>(0.00)</u>	\$ <u>(0.00)</u>	\$ <u>(0.02)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – basic and diluted	<u>62,712,447</u>	<u>58,163,147</u>	<u>62,712,447</u>	<u>58,974,114</u>

See accompanying summary of accounting policies and notes to interim consolidated financial statements.

Sur American Gold Corporation

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

	Three months ended		Six months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss) for the period	(263,638)	(1,988)	\$ (376,522)	\$ (1,476,054)
Adjustments to reconcile net cash provided by (used in) operating activities				
Depreciation and amortization	4,298	4,177	21,155	9,144
Stock-based compensation	-	-	-	1,445,095
Unpaid interest income	-	(106,973)	-	(208,875)
Non-controlling interest in subsidiary	2,621		2,281	-
Decrease (increase) in				
Amounts receivable and advances	3,436	3,693	(1,835)	5,515
Increase (decrease) in				
Accounts payable and accrued liabilities	(3,221)	(221,309)	128,697	(90,909)
	<u>(256,504)</u>	<u>(322,400)</u>	<u>126,862</u>	<u>(316,084)</u>
CASH FLOW FROM INVESTING ACTIVITIES				
Cash held in subsidiaries at beginning of period	-	-	127,027	-
Purchase of capital assets	(43,451)	-	(93,021)	(7,235)
Advances to affiliates		(294,220)	-	(465,673)
Expenditures on deferred exploration costs	<u>(299,460)</u>	<u>-</u>	<u>(747,526)</u>	<u>-</u>
	<u>(342,911)</u>	<u>(294,220)</u>	<u>(713,520)</u>	<u>(472,908)</u>
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issuances of common shares	-	1,434,470	108,100	2,300,970
Share issue costs paid	<u>-</u>	<u>(127,577)</u>	<u>-</u>	<u>(248,883)</u>
	<u>-</u>	<u>1,306,893</u>	<u>108,100</u>	<u>2,052,087</u>
INCREASE (DECREASE) IN CASH DURING THE PERIOD	(599,415)	690,273	(831,644)	1,263,095
CASH, beginning of period	<u>1,939,055</u>	<u>1,508,137</u>	<u>2,171,284</u>	<u>935,315</u>
CASH, end of period	\$ <u>1,339,640</u>	\$ <u>2,198,410</u>	\$ <u>1,339,640</u>	\$ <u>2,198,410</u>

See Note 8.

See accompanying summary of accounting policies and notes to interim consolidated financial statements.

Sur American Gold Corporation

INTERIM CONSOLIDATED SCHEDULE OF DEFERRED EXPLORATION COSTS

	Panag, Suraganon and Tagpura	Batoto	T'Boli	Total
ACQUISITION COSTS	\$ <u>294,738</u>	\$ <u>267,735</u>	\$ <u>385,244</u>	\$ <u>947,717</u>
DEFERRED EXPLORATION COSTS				
Balance, beginning of period	<u>703,282</u>	<u>445,811</u>	<u>477,100</u>	<u>1,626,193</u>
Incurred during the period				
Administration and general	39,521	32,767	19,112	91,400
Assaying	11,223	16,379	748	28,350
Community development	6,511	6,301	7,761	20,573
Consultants	62,981	128,150	28,753	219,884
Depreciation and amortization	17,942	520	3,174	21,636
Environmental rehabilitation	-	-	2,963	2,963
Explor. & Min. Processing.	18	46,319	-	46,337
Geological	14,455	34,429	13,888	62,772
Taxes, licenses and fees	4,809	3,306	8,631	16,746
Transportation	6,669	35,483	13,854	56,006
Travel	<u>9,078</u>	<u>1,904</u>	<u>2,126</u>	<u>13,108</u>
	<u>173,207</u>	<u>305,558</u>	<u>101,010</u>	<u>579,775</u>
Balance, end of period	<u>876,489</u>	<u>751,369</u>	<u>578,110</u>	<u>2,205,968</u>
	\$ <u>1,171,227</u>	\$ <u>1,019,104</u>	\$ <u>963,354</u>	\$ <u>3,153,685</u>

Sur American Gold Corporation

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

1. GOING CONCERN AND NATURE OF OPERATIONS

Sur American Gold Corporation (the "Company") is incorporated under the laws of the Province of Alberta. Its principal business activity is natural resource exploration, presently focusing on unproven mineral interests located in the Philippines.

For the period ended June 30, 2005 the Company incurred a net loss of \$376,522 (December 31, 2004 - \$ 1,441,999) and as at June 30, 2005 had a deficit of \$ 11,625,972 (December 31, 2004 - \$ 10,348,410). The Company's ability to continue in operation is dependent on its ability to secure additional financing to fund ongoing administrative, planned exploration and expenditures, and while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

These consolidated financial statements are prepared on a going concern basis, which contemplates that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and settle its liabilities in other than the normal course of business, possibly at amounts different from those presented in these consolidated financial statements.

2. ACCOUNTING POLICIES

Basis of presentation

These interim consolidated financial statements are presented using accounting principles and methods of application consistent with those applied to the year ended December 31, 2004, except that the following accounting policies were adopted on January 1, 2005 due to the adoption of a new accounting standard discussed in Note 3.

These interim financial statements should be read in conjunction with the December 31, 2004 annual financial statements.

Basis of consolidation

These interim consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Exploradora La Esperanza S.A., its 70% owned subsidiary Sabena Limited and 100% of three Philippine corporations as required under CICA Accounting Guideline 15, Philco Mining Corporation, Batoto Resources Corporation and TMC Tribal Mining Corporation. All intercompany transactions and balances are eliminated on consolidation.

Impairment in long-lived assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

Asset retirement obligation

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As at June 30, 2005 the Company does not have any asset retirement obligation.

Sur American Gold Corporation

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

3. ADOPTION OF NEW ACCOUNTING STANDARD

On January 1, 2005 the Company adopted Accounting Guideline 15 Consolidation of Variable Interest Entities ("ACG-15") of the Canadian Institute of Chartered Accountants' Handbook. The adoption of AcG-15 required the Company to consider whether it held interests in other entities that expose the Company to the majority of the financial risk of those entities. In cases where the Company determines it is the "primary beneficiary" of another entity, consolidation of that entity is required.

The Company has determined that its investments in and advances to its Philippine affiliates meet the consolidation criteria of AcG-15, though the Company continues to hold a 40% voting interest in these entities. The Company has not otherwise changed its legal relationship with these entities, as Philippine law prohibits foreign corporations from holding a greater than 40% equity interest in natural resource exploration ventures.

The Company has adopted AcG-15 effective on January 1, 2005 and, as permitted by the standard, did so on a retroactive basis without restatement of the comparative periods.

As a consequence of adopting AcG-15, the Company has eliminated, on consolidation, certain previously recognized financial statement line items, in particular the investments in and advances to the Philippine affiliates, and has recognized certain new line items, in particular the deferred exploration costs. In addition, the Company has eliminated the previously recognized interest income earned on the advances, which represents a charge to retained earnings of \$ 901,040 as at January 1, 2005.

4. SHARE CAPITAL

Authorized

Unlimited common shares without par value

	Six months ended June 30, 2005		Year ended December 31, 2004	
	Shares	\$	Shares	\$
Issued				
Beginning of period	62,636,114	\$ 13,848,828	50,379,348	\$ 9,900,824
Common shares issued for:				
Private placements	–	–	1,074,766	1,150,000
Exercise of warrants	458,000	91,600	7,702,000	1,728,700
Exercise of stock options	110,000	35,178	3,350,000	994,334
Acquisition of subsidiary	–	–	–	–
Settlement of debt	–	–	130,000	74,970
	63,204,114	13,975,606	62,636,114	13,848,828
Less: Share issue costs	–	274,743	–	274,743
	<u>63,204,114</u>	<u>\$ 13,700,863</u>	<u>62,636,114</u>	<u>\$ 13,574,085</u>

At June 30, 2005, the Company had outstanding warrants issued, pursuant to various private placements, which may be exercised to purchase 1,759,626 common shares. The warrants expire at various dates through April 2006

Sur American Gold Corporation

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

4. SHARE CAPITAL (continued)

Details of warrants issued during the period ending June 30, 2005 and years ended December 31, 2004 are as follows:

	Six months ended June 30, 2005	Year ended December 31, 2004
Issued, beginning of period	2,217,626	9,350,000
Issued pursuant to private placements	–	569,626
Exercised	<u>(458,000)</u>	<u>(7,702,000)</u>
	<u>1,759,626</u>	<u>2,217,626</u>

The following table summarizes information about warrants issued and exercisable at June 30, 2005.

Exercise price	Warrants outstanding	Expiry date
\$ 0.50	1,190,000	November 19, 2005
1.07	32,243	April 30, 2006
1.07 ⁽¹⁾	<u>537,383</u>	April 30, 2006
	<u>1,759,626</u>	

⁽¹⁾ \$ 1.55 after April 30, 2004, and \$ 2.10 after April 30, 2005

5. STOCK-BASED COMPENSATION

The Company has an incentive stock option plan (the "Plan"). Under the Plan a total of 10% of the Company's outstanding common shares are reserved for the issuance of stock options to directors, officers, employees and consultants. The terms of the option and the option price are fixed by the directors at the time of grant subject to price restrictions imposed by the TSX Venture Exchange. Stock options awarded have a maximum term of five years and vest on the date of award.

The following is a summary of the total number of stock options outstanding:

	Options outstanding	Weighted average exercise price
Balance at January 1, 2004	4,950,000	\$ 0.19
Awarded	5,900,000	0.67
Expired	(85,000)	1.00
Cancelled	(1,510,000)	0.45
Exercised	<u>(3,350,000)</u>	<u>0.45</u>
Balance at January 1, 2005	5,905,000	\$ 0.19
Awarded	-	-
Expired	-	-
Cancelled	-	-
Exercised	<u>(110,000)</u>	<u>0.15</u>
Balance at June 30, 2005	<u>5,795,000</u>	<u>0.19</u>

Sur American Gold Corporation

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

5. STOCK-BASED COMPENSATION (continued)

The following summarizes information about stock options outstanding at June 30, 2005:

Exercise price	Number outstanding and exercisable	Expiry date
\$ 0.10	50,000	May 2007
0.11	465,000	September 2008
0.15	40,000	September 2008
0.45	740,000	December 2008
0.40	<u>4,500,000</u>	September 2009
	<u>5,795,000</u>	

The fair value of stock options awarded to employees, directors and consultants was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

	June 30, 2005	December 31, 2004
Risk-free interest rate	-	3.0%
Estimated volatility	-	116%
Expected life	-	5 years

The average fair value of stock options awarded during the 2004, calculated using the Black-Scholes option pricing model, was \$ 0.27.

The Black-Scholes option pricing model was developed for use in estimating the fair value of stock options that have no vesting provisions and are fully transferable. Also, option-pricing models require the use of estimates and assumptions including the expected volatility. The Company uses expected volatility rates which are based upon historical volatility rates. Change in the underlying assumptions can materially affect the fair value estimates.

6. RELATED PARTY TRANSACTIONS

Included in amounts receivable and advances is \$ 1,519 (December 31, 2004 - \$ 1,519) due from directors.

Included in accounts payable and accrued liabilities is \$ 107,230 (December 31, 2004 - \$ 185,672) payable to directors and a corporation controlled by a director.

The Company paid gross rent of \$6,000 to a director during the period.

Sur American Gold Corporation

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

7. SEGMENTED INFORMATION

The Company's corporate assets are located in Canada and the Company has investments in and advances to corporations located in the Philippines and Australia and natural resource exploration activities have occurred in Colombia in past years.

	June 2005				
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 963,298	\$ 2,684	\$ 387,784	\$ 6,928	\$ 1,360,694
Deferred exploration costs	–	–	3,153,685	–	3,153,685
Capital assets	<u>31,642</u>	<u>–</u>	<u>270,858</u>	<u>11,370</u>	<u>313,870</u>
	\$ <u>994,940</u>	\$ <u>2,684</u>	\$ <u>3,812,327</u>	\$ <u>18,298</u>	\$ <u>4,828,249</u>
	December 2004				
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 2,181,794	\$ 5,451	\$ –	\$ 6,928	\$ 2,194,173
Investments in and advances to affiliates	–	–	3,496,793	–	3,496,793
Capital assets	<u>38,023</u>	<u>–</u>	<u>–</u>	<u>11,370</u>	<u>49,393</u>
	\$ <u>2,219,817</u>	\$ <u>5,451</u>	\$ <u>3,496,793</u>	\$ <u>18,298</u>	\$ <u>5,740,359</u>

8. SUPPLEMENTAL CASH FLOW INFORMATION

The Company has conducted non-cash financing activities as follows:

	Jun 2005	Dec 2004
Investing activities		
Acquisition of subsidiary	\$ –	\$ –
Financing activities		
Debt settled for common shares	–	74,970
Shares issued to settle debt	<u>–</u>	<u>(74,970)</u>
	\$ <u>–</u>	\$ <u>–</u>

The Company has paid interest of \$ Nil (December 31, 2004 - \$ 24,060).

9. SUBSEQUENT EVENT

Subsequent to June 30, 2005, the Company:

- Acquire the remaining 30% equity interest in Sabena Limited that was held by two directors, in exchange for the issue of 10,000,000 common shares from treasury. The shareholders approved the purchase at the Annual General meeting held on June 17, 2005 and subsequent to that, it was approved by the TSX Venture Exchange. These shares are legended and are restricted for trading until July 15, 2006.
- Completed a non-brokered private placement of 6,250,000 units at \$ 0.40 per unit, for gross proceeds of \$ 2,500,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share, for a period of two years, for \$ 0.55 until August 16, 2005 and \$ 0.75 until August 16, 2006. No commissions were paid in connection with the private placement. Directors purchased 251,425 units of the private placement.
- 40,000 share purchase warrants were exercised for proceeds of \$ 20,000.

SUR AMERICAN GOLD CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FINANCIAL PERIOD ENDED JUNE 30, 2005

Background

This discussion and analysis of financial position and results of operation is prepared as at August 29, 2005, and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2004 and 2003, of Sur American Gold Corporation (the "Company") where necessary. Those financial statements have been prepared in accordance with Canadian generally accepted accounting policies.

Company Overview

The Company is a junior mineral exploration company engaged in the exploration and development of gold projects located in the Philippines. The Company is currently focusing its financial resources in conducting an exploration program for gold and gold-copper in its Comval and T'Boli Projects. As of the date of the MD&A, the Company has not earned any production revenue, but has commenced a long term trial mining and metallurgical test program.

The Company has yet to establish any resources or reserves as no drilling has been undertaken. However the Company has announced that it intends to undertake a two-stage 12,000 metre drilling program at its Batoto Gold project commencing in August, 2005. Upon completion of the initial drilling program the Company may be in a position to commence resource estimates and therefore initial feasibility studies.

Based on the results from the initial programs at Batoto, the Company has set two main corporate goals. First, it plans a small high grade operation and then progressively expand this operation as further resources are identified and second and more importantly to establish the extent of the lower grade intervening mineralization. The Company has set two goals for 2005-2006: The building and commissioning of the small plant and determining the full extent of mineralized zone(s) by systematic geological mapping, extensive sampling and drilling.

Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

COMVAL PROJECT AREA

COMMUNITY, ENVIRONMENT AND FEASIBILITY STUDIES

In order to achieve one of its corporate goals, a feasibility study for an initial small scale CIP plant at Comval was completed during the March quarter and submitted to the Philippines Government.

In addition during the same period a Memorandum of Agreement (“MOA”) granting “Free and Informed Prior Consent” (“FPIC”) for mineral exploration, development and production at Comval has been signed with local Indigenous Peoples under the auspices of the National Commission on Indigenous Peoples (“NCIP”). The granting of the FPIC is an essential prerequisite to being granted permission to proceed to mining in the Philippines.

An Environmental Impact Study (“EIS”) has also been completed and submitted to the Environmental Management Bureau (“EMB”). A field visit by the EMB and other Government agencies and local organizations was made in June. A revised EIS at the period was in the process of being completed. This is part of the review and approval process for CIP plant construction and operation.

The source of the mineralization will be the numerous high grade gold veins within the Batoto porphyry, many of which have returned local grades in excess of 100g/t gold. Construction is expected to commence by the fourth quarter, 2005, with commissioning during the first quarter 2006. The estimated cost of the operation has been estimated at approximately \$Can 700,000, which will be provided by the treasury of the Company.

As stated above, whilst the high grade operation is an important objective and will assist the Company financially, the major corporate goal of the Company is to aggressively explore and delineate the ultimate extent of the Batoto gold-silver-copper porphyry.

EAST BATOTO ZONE

CLARK AREA

During the quarter a new vein discovery was discovered about 50 metres north east of the entrance to the Clark crosscut. A channel sample cut across the vein returned a true width of 1 metre grading 69.1 g/t gold. Follow up exploration has commenced. This vein is in addition to the more than 100 larger veins already discovered within the Batoto porphyry.

A recent landslip on the lower slopes of Batoto Mountain has revealed a previously unknown strongly mineralized area of gold mineralization within the lower levels of the Batoto porphyry. This new outcrop measures more than 40 metres wide and initial sampling has returned a grade of 3.1g/t gold from initial chip sampling across the landslip area. Follow-up sampling is underway to confirm this new discovery. This new area further extends the limits of potentially economic bulk mineable gold mineralization from an elevation of 900 metres above sea level to this lower elevation of 480 metres, a vertical distance of more than 400 metres.

TARALE AREA

Development of the 0.6m to 2.0 metre thick gently dipping Tarale 11 vein in the SE quadrant of the Batoto gold-silver-copper project progressed during the period and has now exceeded 250 metres and has confirmed that the high grade vein occurs over an area of at least 2,500sq metres and is open in all directions.

The planned mining operation will effectively be a room and pillar type operation and is being developed as part of the Company’s ongoing bulk metallurgical testing program and to prepare the vein for commercial production scheduled for the first quarter 2006.

The vein is one of more than 30 high grade structures that occur in the Tarale area of the Batoto project and one of more than 120 in the Batoto project area found to date. The vein has been consistently high grade on average but has a high grade variance as the following channel sample assays taken from the 10 current working faces: All assays are 30g fire assays and were analysed at the JBMM Laboratory at Monkayo, Compostela Valley.

Vein True Width	Gold g/t
1.00	14.90
1.90	0.53
0.60	390.50
0.80	35.90
1.10	3.10
2.00	19.10
1.40	5.20
0.60	0.53
0.80	35.28
1.65	20.48

INITIAL DRILLING PROGRAM

A SUR Philippine affiliate company has advised that it signed a contract with the Mines and Geosciences Bureau (“MGB”) for the lease of a high capacity Longyear 44 diamond drill rig along with accessory equipment. In addition the MGB will provide certain experienced drilling personnel who will work with SUR’s drilling consultant Mr Wayne McCallum. Mr McCallum has 30 years experience in the drilling industry with more than 10 years in the Philippines including the Comval district. The first phase of drilling is an initial 12,000 metre diamond drilling program.

WEST BATOTO ZONE

FOLLOW-UP GEOPHYSICAL PROGRAM

A geophysical program of approx. 70 line km of induced polarization and magnetic surveys to help determine the extent of the new gold-silver-copper porphyry discovery at the West Batoto Zone commenced in mid July and is expected to be completed by mid November whereupon a thorough review will be undertaken of the results prior to planning a drill program in this area.

50 TONNE BULK SAMPLE

The Company collected a representative 49.59 tonne bulk sample of the new gold-silver-copper porphyry discovery in Batoto Creek for metallurgical purposes and to ascertain the overall grade. This sampling was undertaken over an interval of nearly 150 metres.

The bulk sample was treated during the third quarter and it returned 3.17g/t gold, 47.3g/t silver and 0.10% copper. An earlier 11.21g/t bulk sample was also treated and this also returned encouraging results of 3.9g/t gold, 34.4g/t silver and 0.19% copper.

Selected Financial Data

(CDN \$ in 000, except per share data)

The following selected financial information is derived from the audited annual consolidated financial statements of the Company prepared in accordance with Canadian GAAP.

	Years ended December 31,		
	2004 \$	2003 \$	2002 \$
Operations:			
Revenues	-	-	-
Income (loss)	(1,442)	(1,227)	(539)
Income (Loss) per share	(0.03)	(0.03)	(0.02)
Dividends per share	-	-	-
Balance Sheet:			
Working capital	1,857	188	(14)
Total assets	5,740	2,855	142
Total Long-term liabilities	-	-	-

The following selected financial information is derived from the unaudited consolidated interim financial statements of the Company prepared in accordance with Canadian GAAP.

	2005		2004				2003		
	Jun \$	Mar.31 \$	Dec.31 \$	Sept.30 \$	June 30 \$	Mar.31 \$	Dec.31 \$	Sept.30 \$	Jun.30 \$
Operations:									
Revenues		-	-	-	-	-	-	-	-
Net income (loss)	(376)	(113)	(1,442)	(1,551)	(1,476)	(1,474)	(1,226)	(112)	(74)
Income (loss) per share	(0.00)	(0.00)	(0.03)	(0.03)	(0.03)	(0.03)	(0.00)	(0.00)	(0.00)
Dividends per share	-	-	-	-	-	-	-	-	-
Balance Sheet:									
Working capital	895	1,498	1,857	1,366	1,537	624	188	(41)	363
Total assets	4,828	5,097	5,740	4,688	4,784	3,706	2,855	1,428	1,045
Total long-tem liabilities	-	-	-	-	-	-	-	354	1,027

Results of Operations

During the period ended June 30, 2005, the Company recorded a loss of \$376,522 compared with a loss of \$1,476,054 for the comparable 2004 period.

The difference of \$1,099,532 was due to a decrease in interest income of \$218,270, decreases in bank charges and interest of \$130, depreciation and amortization of \$548, interest on loans payable of \$15,454, regulatory and shareholders costs of \$21,094, salaries and benefits of \$6,182, travel and accommodation \$3,549, stock based compensation expense of \$1,445,095 and non-controlling interest \$2,281. These decreases were offset by increases in, foreign exchange loss of \$140,637, legal and professional of \$27,404, office and miscellaneous of \$58, rent \$6,875, and telephone and fax \$1,557.

The decrease in interest income is the result of the Company adopting Accounting Guideline 15, Consolidation of Variable Interest Entities ("ACG-15"), of the Canadian Institute of Chartered Accountants' Handbook, on January 1, 2005. The decreases in bank charges and interest are the result of not paying as much in interest charges. The decrease in depreciation and amortization result from a decrease in assets amounts. Foreign exchange loss is the result of adopting "ACG-15", and consolidating the Philippine Companies. Interest on loans payable is reduced as a result of the Company repaying the \$250,000 loan. The decrease in regulatory and shareholders' costs is due to a reduction in investors relations expenditures. The decrease in salaries and benefits is the result of allocating a portion of the salaries for the CEO directly to the projects in the Philippines. The decrease in travel and accommodation is the result of the CEO not travelling as much as in the prior year. The decrease in stock based compensation expense of \$1,445,095 is the direct result of not having any stock options exercised in 2005, as opposed to 2004. The increase in legal and professional fees, office and miscellaneous, rent and telephone and fax, is the direct result of increased activity and regulatory and reporting changes requiring expert advice.

The Company believes that the T'Boli and Comval Projects contain demonstrated high grade veins which, based on work completed to date, have a high probability of being successfully exploited to provide significant cash flow. In this regard the company, as stated above, is working towards establishing small scale commercial operations. The data obtained from such operations is also expected to be used to generate reliable data for the input into feasibility studies of potentially larger operations in order to ascertain the viability of building larger plants at both locations. Operating costs in the Philippines are generally low, and combined with the apparent high grades at both T'Boli and Comval projects, and the apparent good metallurgical characteristics of the mineralization, the Company is confident that such feasibility studies could lead to commercial mining operations.

Share Capital Transactions

During the period ended June 30, 2005 the Company completed the following share capital transactions:

- a) 110,000, stock options were exercised by a director for total cash proceeds of \$16,500.
- b) Issued 458,000 shares upon the exercise of warrants at \$0.20 for total proceeds of \$ 91,600.

Financial Condition and Capital Resources

As at June 30, 2005, the company had a working capital of \$894,929, as compared to a working capital of \$ 1,857,105 at December 31, 2004.

The decrease in working capital is mainly the result of the Company adopting Accounting Guideline 15, Consolidation of Variable Interest Entities ("ACG-15"), of the Canadian Institute of Chartered Accountants' Handbook, on January 1, 2005.

Anticipated capital and exploration expenditures as well as administration during the next 12 months are anticipated to total nearly \$ 2.5 million. Therefore the Company, currently has sufficient working capital to fulfill its planned budgeted work programs.

Changes in Accounting principles

Stock-based Compensation

Effective January 1, 2003, the Company adopted the fair value method of accounting for all employee and non-employee stock-based compensation under the amended recommendations of the Canadian Institute of Chartered Accountants Handbook, Section 3870, Stock-based Compensation and Other Stock-based Payments.

Under the fair value method, stock-based compensation expense is recognized at the time of award with an offsetting increase in contributed surplus.

Consolidation of Variable Interest Entities

In June 2003, the Canadian Institute of Chartered Accountants issued Accounting Guideline 15, *Consolidation of Variable Interest Entities*, which addresses the consolidation of interests in variable interest entities by the enterprise that is the primary beneficiary. A variable interest entity is an entity that does not have sufficient equity investment at risk to permit it to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest. The primary beneficiary of a variable interest entity is the enterprise that is obligated to absorb the majority of the expected losses, if any, the expected residual returns, or both.

Accounting Guideline 15 applies to interim periods beginning on or after November 1, 2004. The Company has adopted this guidance as of January 1, 2005, and as such, the Company's June 30, 2005, interim consolidated financial statements, include the financial position and operations of the Philippine corporations in which the Company holds a 40% equity interest, as the Company has determined that it holds variable interests in these corporations and is the primary beneficiary.

The effect on the Company's financial statements is material as the investments in and advances to affiliates, as well as any interest income on the advances, were eliminated upon consolidation. As of January 1, 2005, the assets and liabilities of the Philippine corporations are reflected in the Company's consolidated financial statements.

Transactions with Related Parties

Included in amounts receivable and advances is \$ 1,519 (December 31, 2005 - \$1,519) due from a director.

Included in accounts payable and accrued liabilities is \$ 107,230 (December 31, 2004 - \$185,672) payable to directors and a corporation controlled by a director.

During the period ending June 30, 2005, gross rent of \$ 6,000 (2004 - \$6,000) was paid to a director of the Company.

Risks and Uncertainties

The company is in compliance with all material regulations applicable to its exploration activities. Existing and possible future environmental legislation, regulations, and actions, could cause additional expense, capital expenditures, restrictions, and delays in the activities of the Company, the extent of which can not be predicted. Before production can commence on any properties, the Company must obtain regulatory and environmental approvals. There is no assurance that such approvals can be obtained on a timely basis. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations.

The Company's mineral properties are located in the Philippines, and consequently are subject to certain risks, including currency fluctuations and possible political and economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations to the mining industry.

Investor Relations Activities

During the period ended June 30 31, 2005, the Company's expenditures for investors' relations amounted to \$ 59,504. They are included in regulatory and shareholders costs. They relate to updating the web-site, the payment of the Company's investors relations for professional fees and other costs to provide market awareness and more exposure in the retail market, the wire distribution of the Company's news releases and costs associated with designing and printing of Company brochures.

Outstanding Share Data

The Company's authorized share capital is an unlimited number of shares without par value. As at June 30, 2005, there were 63,204,114 compared to 62,636,114 shares outstanding at December 31, 2004. The increase is the result of the exercise of stock options and warrants. As at June 30, 2005, there were 5,795,000 stock options outstanding, which were outstanding and exercisable, with exercise prices ranging from \$0.10 to \$0.45 per share. In addition, there were 1,759,626 warrants outstanding and which expire between November 19, 2005 and April 30, 2006, with exercise prices between \$0.50 and \$2.10 per share.

Proposed Transactions

On April 12, 2005, the Company received conditional acceptance of a transaction for the Company to acquire the remaining 30% interest in Sabena Limited that it did not own. The TSX Venture Exchange required all relevant documentation and approval of shareholders which was obtained at the Company's AGM on June 17, 2005. The transaction involved the issuance, to two of the current directors of the Company, Mr Garry Clark and Mr Alan Phillips or their nominees of 10,000,000 common shares. Subsequent to June 30, 2005, the TSX Venture Exchange approved the transaction and the shares were issued. These shares are legended and are restricted for trading until July 15, 2006.

