

**Sur American
Gold Corporation**
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 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

	Sept 30, 2005 <u>(Unaudited)</u>	December 31, 2004 <u>(Audited)</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,064,365	\$ 2,171,284
Amounts receivable and advances	73,611	16,123
Prepaid expenses	<u>5,391</u>	<u>6,766</u>
	3,143,367	2,194,173
DEFERRED EXPLORATION COSTS (Note 3 and Schedule)	6,775,130	-
INVESTMENTS IN AND ADVANCES TO AFFILIATES (Note 3)	-	3,496,793
CAPITAL ASSETS	<u>329,946</u>	<u>49,393</u>
	\$ <u>10,248,443</u>	\$ <u>5,740,359</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 268,155	\$ 293,132
Loans payable	<u> </u>	<u>43,936</u>
	268,155	337,068
NON-CONTROLLING INTEREST IN SUBSIDIARIES	<u> </u>	<u>211,326</u>
	<u>268,155</u>	<u>548,394</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 4)	19,878,362	13,574,085
CONTRIBUTED SURPLUS	1,947,612	1,966,290
RETAINED EARNINGS (DEFICIT)	<u>(11,845,686)</u>	<u>(10,348,410)</u>
	<u>9,980,288</u>	<u>5,191,965</u>
	\$ <u>10,248,443</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		Nine months ended	
	Sept 30,		Sept 30,	
	2005	2004	2005	2004
EXPENSES				
Bank charges and interest	748	467	\$ 1,948	\$ 1,797
Depreciation and amortization	4,299	4,178	12,895	13,322
Foreign exchange (gain) loss	140,331	26,318	255,240	590
Interest on loan payable	2,621	5,108	8,686	26,627
Legal and professional	2,497	4,257	80,503	54,859
Office and miscellaneous	9,470	5,015	24,908	20,395
Regulatory and shareholder costs	16,401	2,488	98,248	105,429
Rent	6,025	6,000	24,900	18,000
Salaries and benefits	45,672	34,623	87,753	82,886
Telephone and fax	1,375	2,566	6,516	6,150
Travel and accommodations	4,587	5,929	12,078	16,969
Stock-based compensation	-	152,205	-	1,597,300
INCOME (LOSS) BEFORE OTHER ITEM	<u>(234,026)</u>	<u>(249,154)</u>	<u>(613,675)</u>	<u>(1,944,324)</u>
OTHER ITEM				
Interest income	<u>14,312</u>	<u>174,160</u>	<u>15,158</u>	<u>393,276</u>
NET INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	<u>(219,714)</u>	<u>174,160</u>	<u>(598,517)</u>	<u>(1,551,048)</u>
NON-CONTROLLING INTEREST	<u>-</u>	<u>-</u>	<u>2,281</u>	<u>-</u>
NET INCOME (LOSS) FOR THE PERIOD	<u>(219,714)</u>	<u>(74,994)</u>	<u>(596,236)</u>	<u>(1,551,048)</u>
RETAINED EARNINGS (DEFICIT), beginning of period	<u>(11,625,972)</u>	<u>(10,382,465)</u>	<u>(10,348,410)</u>	<u>(8,906,411)</u>
	<u>(11,845,686)</u>	<u>(10,457,459)</u>	<u>(10,944,646)</u>	<u>(10,457,459)</u>
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>(11,845,686)</u>	\$ <u>(10,457,459)</u>	\$ <u>(11,845,686)</u>	\$ <u>(10,457,459)</u>
EARNINGS (LOSS) PER SHARE, basic and diluted	\$ <u>(0.00)</u>	\$ <u>(0.00)</u>	\$ <u>(0.01)</u>	\$ <u>(0.03)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – basic and diluted	<u>71,954,114</u>	<u>61,202,080</u>	<u>71,956,777</u>	<u>60,993,779</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		Nine months ended	
	Sept 30,		Sept 30,	
	2005	2004	2005	2004
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss) for the period	(219,714)	(74,994)	\$ (596,236)	\$ (1,551,048)
Adjustments to reconcile net cash provided by (used in) operating activities				
Depreciation and amortization	(8,260)	4,178	12,895	13,322
Stock-based compensation	-	152,205	-	1,597,300
Unpaid interest income	-	(172,590)	-	(381,465)
Non-controlling interest in subsidiary	-	-	2,281	-
Decrease (increase) in				
Amounts receivable and advances	(54,278)	(1,974)	(56,113)	3,541
Increase (decrease) in				
Accounts payable and accrued liabilities	<u>(197,218)</u>	<u>(359,978)</u>	<u>(68,521)</u>	<u>(450,887)</u>
	<u>(479,470)</u>	<u>(453,153)</u>	<u>(705,694)</u>	<u>(769,237)</u>
CASH FLOW FROM INVESTING ACTIVITIES				
Cash held in subsidiaries at beginning of period	-	-	127,027	-
Purchase of capital assets	(34,340)	-	(127,361)	(7,235)
Advances to affiliates	-	(209,482)	-	(675,155)
Expenditures on deferred exploration costs	<u>(338,965)</u>	<u>-</u>	<u>(1,086,491)</u>	<u>-</u>
	<u>(373,305)</u>	<u>(209,482)</u>	<u>(1,086,825)</u>	<u>(682,390)</u>
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issuances of common shares	2,609,600	154,000	2,717,600	2,454,970
Share issue costs paid	<u>(32,000)</u>	<u>129</u>	<u>(32,000)</u>	<u>(248,754)</u>
	<u>2,577,600</u>	<u>154,129</u>	<u>2,685,600</u>	<u>2,206,216</u>
INCREASE (DECREASE) IN CASH DURING THE PERIOD	1,724,825	(508,506)	893,081	754,589
CASH, beginning of period	<u>1,339,640</u>	<u>2,198,410</u>	<u>2,171,284</u>	<u>935,315</u>
CASH, end of period	\$ <u>3,064,465</u>	\$ <u>1,689,904</u>	\$ <u>3,064,365</u>	\$ <u>1,689,904</u>

See Note 8.

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

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INTERIM CONSOLIDATED SCHEDULE OF DEFERRED EXPLORATION COSTS

	Panag, Suraganon and Tagpura	Batoto	T'Boli	Total
ACQUISITION COSTS	\$ <u>1,924,748</u>	\$ <u>1,897,744</u>	\$ <u>385,244</u>	\$ <u>4,207,736</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	64,209	62,193	29,202	155,604
Assaying	11,223	16,379	748	28,350
Community development	6,511	6,301	10,630	23,442
Consultants	79,611	182,131	63,123	324,865
Depreciation and amortization	27,680	790	4,642	33,112
Drilling Costs	25,376	8,747	-	34,123
Environmental rehabilitation	-	506	2,963	3,469
Explor. & Min. Processing.	5,940	78,125	21,347	105,412
Geological	33,620	46,298	19,346	99,266
Taxes, licenses and fees	6,385	4,245	9,371	20,001
Transportation	23,445	54,452	16,462	94,359
Travel	<u>12,034</u>	<u>2,798</u>	<u>4,366</u>	<u>19,198</u>
	<u>296,034</u>	<u>462,965</u>	<u>182,202</u>	<u>941,201</u>
Balance, end of period	<u>999,316</u>	<u>908,776</u>	<u>659,302</u>	<u>2,567,394</u>
	\$ <u>2,924,064</u>	\$ <u>2,806,520</u>	\$ <u>1,044,546</u>	\$ <u>6,775,130</u>

Sur American Gold Corporation

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 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 September 30, 2005 the Company incurred a net loss of \$ 596,236 (December 31, 2004 - \$ 1,441,999) and as at September 30, 2005 had a deficit of \$ 11,845,686 (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 subsidiaries, Exploradora La Esperanza S.A., and 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 September 30, 2005 the Company does not have any asset retirement obligation.

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September 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

	Nine months ended		Year ended	
	Sept 30, 2005		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	6,250,000	2,500,000	1,074,766	1,150,000
Exercise of warrants	498,000	111,600	7,702,000	1,728,700
Exercise of stock options	612,500	124,678	3,350,000	994,334
Acquisition of subsidiary	10,000,000	3,600,000	–	–
Settlement of debt	–	–	130,000	74,970
	79,996,614	20,185,106	62,636,114	13,848,828
Less: Share issue costs	–	306,744	–	274,743
	<u>79,996,614</u>	<u>\$ 19,878,362</u>	<u>62,636,114</u>	<u>\$ 13,574,085</u>

At September 30, 2005, the Company had outstanding warrants issued, pursuant to various private placements, which may be exercised to purchase 7,969,626 common shares. The warrants expire at various dates through August 2007.

Acquired 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.

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September 30, 2005

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, 2006 and \$ 0.75 until August 16, 2007. 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.

The price of 53,383 non-transferable share purchase warrants was amended to \$0.65, these warrants were issued pursuant to a private placement of 1,074,766 common shares with 537,383 non-transferable share purchase warrants attached which expire on April 30, 2006. There is a forced exercised provision if the closing price for the Company's shares is \$0.78 or greater for a period of 10 consecutive trading days, then the warrant holder will have 30 days to exercise the warrants, otherwise the warrants will expire on the 31st day.

4. SHARE CAPITAL (continued)

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

	Nine months ended Sept 30, 2005	Year ended December 31, 2004
Issued, beginning of period	2,217,626	9,350,000
Issued pursuant to private placements	6,250,000	569,626
Exercised	<u>(498,000)</u>	<u>(7,702,000)</u>
	<u>7,969,626</u>	<u>2,217,626</u>

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

Exercise price	Warrants outstanding	Expiry date
\$ 0.50	1,150,000	November 19, 2005
1.07	32,243	April 30, 2006
1.07 ⁽¹⁾	483,645	April 30, 2006
0.65 ⁽²⁾	53,738	April 30, 2006
0.55/0.75	<u>6,250,000</u>	August 16, 2007
	<u>7,969,626</u>	

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

(2) Please note exercise provision above

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.

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September 30, 2005

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	\$ 0.67
Awarded	-	-
Expired	-	-
Cancelled	-	-
Exercised	<u>(612,500)</u>	<u>0.15</u>
Balance at September 30, 2005	<u>5,292,500</u>	<u>0.40</u>

5. STOCK-BASED COMPENSATION (continued)

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

Exercise price	Number outstanding and exercisable	Expiry date
\$ 0.10	50,000	May 2007
0.11	115,000	September 2008
0.45	740,000	December 2008
0.40	<u>4,387,500</u>	September 2009
	<u>5,292,500</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:

	Sept 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.

Sur American Gold Corporation

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September 30, 2005

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 \$ 0 (December 31, 2004 - \$ 185,672) payable to directors and a corporation controlled by a director.

The Company paid gross rent of \$18,000 to a director during the period.

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.

	Sept 2005				
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 2,794,134	\$ 858	\$ 341,447	\$ 6,928	\$ 3,143,367
Deferred exploration costs	-	-	6,775,130	-	6,775,130
Capital assets	<u>27,343</u>	<u>-</u>	<u>291,233</u>	<u>11,370</u>	<u>329,946</u>
	\$ <u>2,821,477</u>	\$ <u>858</u>	\$ <u>7,407,810</u>	\$ <u>18,298</u>	\$ <u>10,248,443</u>

	Dec ember 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:

	Sept 2005	Dec 2004
Investing activities		
Acquisition of subsidiary	\$ 3,600,000	\$ -
Financing activities		
Debt settled for common shares	-	74,970
Shares issued to settle debt	-	<u>(74,970)</u>
	\$ <u>3,600,000</u>	\$ <u>-</u>

The Company has paid interest of \$ 8,685 (December 31, 2004 - \$ 24,060).

9. SUBSEQUENT EVENT

Subsequent to September 30, 2005, the Company:

- 1,010,000 share purchase warrants were exercised for proceeds of \$ 505,000
- 250,000 stock options were exercised for proceeds of \$ 100,000.
- 140,000 warrants @ \$0.50 expired unexercised

SUR AMERICAN GOLD CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FINANCIAL PERIOD ENDED SEPTEMBER 30, 2005

Background

This discussion and analysis of financial position and results of operation is prepared as at November 25, 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 successfully completed a long term trial mining and metallurgical test program. The program, which terminated in late October, 2005 confirmed that the gold mineralization at Batoto is likely to be able to be treated by a conventional CIP plant.

Company has yet to establish any resources or reserves as no drilling results are currently available. However the Company commenced 12,000 metre drilling program at its Batoto Gold project in September, 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 consideration will be given to progressively expand this operation as further resources are identified and second and more importantly to establish the extent and grade of the lower grade intervening mineralization. The Company has set two goals for 2005-2007: 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.

A draft Environmental Impact Study (“EIS”) was completed in June, 2005 and submitted for comments 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 was undertaken in September-October, 2005 and a final inspection by the EMB team is scheduled for late November, 2005. This is part of the review and approval process for CIP plant construction and operation.

Following a review of this final EIS it is expected that an ECC will be issued to Batoto Resources Corporation in early December and shortly thereafter a Special Mining Lease (SML).

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 now expected to commence by the first quarter, 2006, with commissioning either late in the first quarter 2006 or early in the second 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

GEOLOGICAL REVIEW

In September, 2005 the Company appointed Mr. Nigel Maund to the key position of Vice President Exploration. Mr Maund is a graduate of the University of London and holds BSc (Hons), MSc and DIC, degrees in Geology as well as an MBA from Cranfield University-Business School, UK.

He is also a Member of the Institute of Mining and Metallurgy and Member of the Society of Economic Geologists and will be the qualified person responsible for technical information obtained in the Philippines as required by the Canadian National Policy 43-101.

Mr Maund has more than 30 years of experience at a senior level in exploration and mine geology experience in Australia, Central Asia, and SE Asia including the Philippines and reports to the SUR President and CEO and will be based in the Philippines. He will work closely with

the Company's Vice President of Operations Mr Brett Taylor and Atty Melanio Andresan President and Chairman of the Company's Philippine affiliated companies.

The Company believes it is particularly fortunate to have Mr Maund join the Company team particularly in view of his extensive knowledge of copper-gold porphyry deposits as we commence a major resource definition drilling program at East Batoto and continue with exploration of the new high grade porphyry gold-silver and copper discovery at the West Batoto zone".

In addition to his responsibilities at Comval Mr Maund will also assume responsibility for all geological work at the Company's T'boli gold-silver epithermal project.

Mr Maund,, who has mapped more than 200 gold deposits around the world, immediately completed his initial review of the East Batoto Zone. In his field appraisal he has positively identified epithermal characteristics such as: collomorphic banded veins, boiling zone textures, including carbonate replacement and also certain epithermal related minerals. Accordingly, he believes that much the gold mineralization may have been deposited at, or near, the epithermal-mesothermal transition zone, within large shear zones.

Mr Maund believes these zones enclose extensive hydrothermal alteration envelopes of quartz - sericite - pyrite - clay alteration and associated structurally controlled stockwork quartz - gold veining. He also adds that "this is highly significant as it helps explain the apparent widespread nature of the gold mineralization and higher than normal gold grades".

Mr Maund's review confirms that the system is also porphyry related but that any mesothermal copper-gold mineralization in the East Batoto Zone is likely to exist at an as yet undetermined deeper level.

Further assessment of the West Batoto Zone where significant copper grades are known to exist at the surface is required before any early conclusions can be made in this area.

EXPLORATION DIAMOND DRILLING

INITIAL DRILLING PROGRAM-CLARK AREA

As previously advised a SUR Philippine affiliate company 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 agreement calls for the MGB to 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.

Following a short community consultation program diamond core drilling commenced in September, 2005 with two trial holes as part of the approved Community Awareness and Training Program. This 100 metre program was completed in late October, 2005 and BDDH #1 (Batoto No.1) commenced thereafter.

BDDH #1 was sited 100 m west of the Clarke adit and designed to test a group of high grade

vein workings clustered around Agrix and Ninja veins. It was drilled at an azimuth of 225⁰ and inclination of – 50.

Poor ground conditions and often intense veining and micro veining combined with deep leaching and oxidation made rapid drill progress through this initial area somewhat difficult initially but the Company quickly overcame these and drill production and recoveries are now improving rapidly.

Based on geological logging of the drill core completed to date it certainly appears that the intensity of quartz veining at Batoto system as seen in the numerous tunnels and trenches continues to depth.

No processing of core has been completed and therefore assays are not yet available.

Hole BDDH 2 will be drilled from a point 120m NW of the Clark adit portal, at an azimuth of 135⁰ and inclination of – 50⁰ to a down hole depth of 200m. The hole is designed to test the large stockwork vein system exposed by Trenches No 1 through 3, at the Clarke prospect.

Besides testing the mineralized system at an optimum point and with an optimum orientation, this hole will also shed very important light on the degree of supergene surface depletion and subjacent enrichment on this prospect. This will enable interpretation of the significance of surface sampling data.

EXPLORATION TRENCHING

Substantial advances in the understanding of the geology of the area around the Clark adit where the current 12,000 metre drilling program is taking place has occurred as a result of the excavation of three long trenches spaced at 100 metre intervals over the initial drilling area.

Trenches 1 and 3 are still in progress as a result of thick overburden development, with trenches as much as 3 to 4 meters deep, requiring timber support. Trench 2, located 50m north of the central Clarke adit, is being extended 20m to the west where further moderate to strong stockwork quartz – sericite – goethite veining has been exposed in a strongly sheared, diorite intrusive body with from 10vol% to 20vol% veins and veinlets.

The bedrock exposed in the trenches comprises an intensely weathered limonite – goethite stained saprolite cross cut by a complex shear array of veins varying from 6vol% to 25vol% quartz.

Given the extent of weathering, there is very little doubt that strong surface leaching of gold has occurred in this topographic and climatic regime. This supposition is lent strong support by the substantially higher channel sample results obtained in the subjacent Clark adit, located some 30-40m below surface which returned slightly less than 2g/t gold over its entire 123 metre length.

The completed 62m of trench 2 has been mapped at a scale of 1:100 and channel sampled on the north wall at 2m intervals across the geologic strike. Assay results returned demonstrate remarkable consistency, returning a total mineralized width of 62m at 0.384 g/t Au. The lowest assay value was 0.033 g/t Au and the highest 0.766 g/t with most values falling between 0.2 and 0.5 g/t Au.

These grades are very similar to surface channels samples taken earlier this year at the Santa Fe area at West Batoto over long intervals.

Trench No 1 excavated 100m north of Trench No 1 (also E – W) has been excavated over a length of 40m. A further 40m is being excavated to the east. The initial 40m has been geologically mapped at a scale of 1: 100 and is currently being channel sampled on the north wall.

Trench No 3 is now 30m long excavated east – west 100m south of Trench No 2 in the Clark area. It is being extended 50m to the east. Stockwork quartz – sericite – pyrite (goethite) veining has been exposed in bedrock similar or identical to that exposed in trenches number 1 and 2. As a result of the impressive quartz veining encountered to date a fourth trench is now underway 100 metres to the south of Trench number 3.

SAMPLE PREPARATION AND ANALYSIS

As the Company intensifies the exploration effort at the Batoto prospect heading into 2006, the need for an internationally recognized sample preparation facility at the exploration site has been recognized.

Accordingly the Company has approached the world class GENALYSIS Laboratory Ltd whose headquarters are located in Perth, Western Australia to finalize an agreement to establish an on site sample preparation facility according to their specifications in respect of layout, establishment and equipment, with all samples being dispatched to the Perth facility for final analysis by fire assay with AAS finish.

It is hoped that this facility will be installed and commissioned at the site of field operations at Camanlangan by the first quarter of 2006.

WEST BATOTO ZONE

FOLLOW-UP GEOPHYSICAL PROGRAM

The large induced polarization/resistivity geophysical program being undertaken over the West Batoto Zone has now completed 70 line km and is about 70% complete. Following the completion of this program and the subsequent magnetic survey and a complete review of the modeled results planning of further drill sites will be undertaken. The geophysical program is being undertaken under the supervision of Elliot Geophysics International Ltd headed by Dr. Peter Elliot MSc. PhD. MAusIMM.

FURTHER DISCOVERY AT KOPIAT CREEK

The Company's exploration team continues to significantly expand the size of the West Batoto Project by the discovery of further high grade gold mineralization in Kopiat Creek some 1000 metres north-northeast of Batoto Creek in the West Batoto Zone (where the Company recently obtained the results of a bulk sample taken over 146 metres which graded 3.17g/t gold, 48g/t silver and 0.10% copper).

The two new initial channel samples of 40 metres and 24 metres respectively were taken approximately 500 metres apart. The gold mineralization in both areas appears to be open in all directions and accordingly channel sampling is being expanded with the objective to delineate the overall extent of the mineralization down the creek.

The entire 1,500 metre long creek is hydrothermally altered but most of the gold mineralization appears to occur in the lower (eastern) 1000 metre section in which macro and micro quartz veining and propylitic/silica alteration is ubiquitous. This 1000 metre interval covers a vertical interval of nearly 350 metres. The initial results are shown below:

Upper Kopyat Creek Area: 40 metres grading 3.54g/t gold (including 12 metres grading 7.92g/t gold).

Lower Kopyat Creek Area: 24 metres grading 1.3g/t gold (including 8 metres grading 2.17g/t gold)

In addition to the above results the Company has recently completed rehabilitation and sampling of a 143 metre long tunnel into the Batoto Hill called the Sabena Tunnel about 200 metres west of the Clark Tunnel and 500 metres west southwest of the initial drilling area. The Sabena Tunnel was developed by another company in the early 1980's.

Initial results of the first 8 metres have been received and these returned 8 metres grading 1.96g/t gold (including 2 metres grading 3.03g/t gold).

As previously reported the Clark Tunnel returned nearly 2g/t over its entire 123 metre length with every 2-4 metre channel sample mineralized to a significant extent.

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	
	Sept 30 \$	Jun \$	Mar.31 \$	Dec.31 \$	Sept.30 \$	June 30 \$	Mar.31 \$	Dec.31 \$	Sept.30 \$
Operations:									
Revenues			-	-	-	-	-	-	-
Net income (loss)	(596)	(376)	(113)	(1,442)	(1,551)	(1,476)	(1,474)	(1,226)	(112)
Income (loss) per share	(0.01)	(0.00)	(0.00)	(0.03)	(0.03)	(0.03)	(0.03)	(0.00)	(0.00)
Dividends per share	-	-	-	-	-	-	-	-	-
Balance Sheet:									
Working capital	2,875	895	1,498	1,857	1,366	1,537	624	188	(41)
Total assets	10,248	4,828	5,097	5,740	4,688	4,784	3,706	2,855	1,428
Total long-term liabilities	-	-	-	-	-	-	-	-	354

Results of Operations

During the period ended September 30, 2005, the Company recorded a loss of \$596,236 compared with a loss of \$1,551,048 for the comparable 2004 period.

The difference of \$954,812 was due to a decrease in interest income of \$378,118, decreases in, depreciation and amortization of \$427, interest on loans payable of \$17,941, regulatory and shareholders costs of \$7,181, travel and accommodation \$4,891 and stock based compensation expense of \$1,597,300. These decreases were offset by increases in, bank charges and interest of \$151, foreign exchange of \$254,650, legal and professional of \$25,644, office and miscellaneous of \$4,513, rent \$6,900, salaries and benefits of \$4,867, telephone and fax \$366, and non-controlling interest of \$2,281.

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 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 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 \$1,597,300 is the direct result of not having as many stock options exercised in 2005, as opposed to 2004. The increase in bank

charges and interest is the result of having more bank activity and therefore more handling charges. 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 increase in salaries and benefits is the result of allocation of portion of the salaries for the CEO directly to the projects in the Philippines

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 September 30, 2005 the Company completed the following share capital transactions:

- a) 612,500, stock options were exercised by a director and an employee for total cash proceeds of \$106,000.
- b) Issued 498,000 shares upon the exercise of warrants for total proceeds of \$ 111,600.
- c) Acquired 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.
- d) 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, 2006 and \$ 0.75 until August 16, 2007. No commissions were paid in connection with the private placement. Directors purchased 251,425 units of the private placement.
- e) The price of 53,383 non-transferable share purchase warrants was amended to \$0.65, these warrants were issued pursuant to a private placement of 1,074,766 common shares with 537,383 non-transferable share purchase warrants attached which expire on April 30,2006. There is a forced exercised provision if the closing price for the Company's shares is \$0.78 or greater for a period of 10 consecutive trading days, then the warrant holder will have 30 days to exercise the warrants, otherwise the warrants will expire on the 31st day.

Financial Condition and Capital Resources

As at September 30, 2005, the company had a working capital of \$2,875,212, 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 \$ 0 (December 31, 2004 - \$185,672) payable to directors and a corporation controlled by a director.

During the period ending September 30, 2005, gross rent of \$ 18,000 (2004 - \$18,000) 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 September 30, 2005, the Company's expenditures for investors' relations amounted to \$ 72,382. 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 September 30, 2005, there were 79,996,614 compared to 62,636,114 shares outstanding at December 31, 2004. The increase is the result of the exercise of stock options and warrants, the issuance of shares for the acquisition of the remaining 30% of Sabena Limited and the issuance of private placement shares. As at September 30, 2005, there were 5,292,500 stock options outstanding, which were outstanding and exercisable, with exercise prices ranging from \$0.10 to \$0.45 per share. In addition, there were 7,969,626 warrants outstanding and which expire between November 19, 2005 and August 16, 2007, 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. During the quarter ended September 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.