



SUR AMERICAN

G O L D C O R P O R A T I O N

Quite Achiever leading to successful development in the Philippines

2004 annual report



REPORT TO OUR SHAREHOLDERS

April 25, 2005

Dear Shareholder,

2004 was an active year for the Company, with many successes as exploration of the Comval gold areas and copper-gold areas accelerated whilst exploration at the T'Boli project resumed after a 6 year pause.

Highlights in 2004 included:

- Commencement of a bulk metallurgical test program at the Comval Batoto gold project. This program as at year end had treated about 1000 tonnes of mineralization from a variety of veins and stockworks and the results to date strongly indicate that the gold mineralization at Batoto is amenable to treatment by conventional CIP (carbon in pulp) methods with high recoveries in the mid 90% range and low reagent consumptions. The test program is on-going and is expected to continue until we commission our first plant at Comval in January 2006. Progressive expansions to this plant are envisaged.
- A major geophysical IP (induced polarization) program was undertaken in 2004 and the results will greatly assist the Company in prioritizing and planning forthcoming drilling programs scheduled to commence by mid-year. Of particular interest is the discovery of a large anomaly about 1,500 metres to the west of where the Company has been focusing its activities. This area is called Santa Fe. The Company believes that this anomaly may represent a deeper gold-rich copper porphyry deposit. This will be tested by drilling in the latter part of 2005. In addition to this major new target the survey also outlined wide areas of resistive rock under the central portion of Batoto. These areas may represent highly silicified zones which at Batoto are known to be gold rich.
- The discovery of multiple high grade copper-gold massive sulphide zones at the Tagpura deposit. These zones all attain mineable widths and have high grades up to a copper equivalent grade of 7.1% copper. In addition to these high grade copper-gold zones exploration work also outlined wide zones of gold rich massive sulphides. eg more than 60 metres grading 1.4g/t gold. The iron content within these zones reaches more than 45% and they may be considered potential gold-rich iron ore targets. A major exploration effort is planned for 2005 including extensive mapping, sampling and geophysics followed by drilling late in 2005.

- The outline of long intervals of continuous low-medium grade gold mineralization at Batoto within the Clark Exploration tunnel which is being driven 50 metres below the surface. As of the date of this report the tunnel was about 120 metres from the portal and has averaged an impressive 2g/t gold which, given the excellent metallurgical nature of the mineralization is definitely potentially economic. The tunnel also contains a 50 metre thick higher grade zone which averages more than 3g/t gold. This area around the Clark tunnel has been selected as our initial area to be drilled and for a significant resource to be defined in 2005. The tunnel is progressing to the south.
- The Company has continued to build excellent relationships with the community around the Comval area by being active in the community and by providing employment for more than 120 people. Grants and community assistance programs were active during the year ended. The Company is particularly proud of its achievements in this important area of community relationships.
- A major rehabilitation of the T'Boli drain tunnel was completed in 2004 in preparation for developing the various high grade epithermal gold-silver zones. As of year end the Company had purchased a small 15t/d plant which, during 2005 will be used to conduct a bulk metallurgical test program treating mineralization from many different sources at the T'boli deposit.
- Exploration work at T'Boli was also successful in extending the known near surface occurrence of the north vein system several hundred metres to the west.

Overall 2004 was a good year for the Company and 2005 will see resources being outlined by drilling programs at our "flagship" Batoto gold project. The Company as at year end was in sound financial shape with in excess of \$2.1 million in its treasury.

I would like to thank our shareholders for their continued support and acknowledge numerous constructive comments and suggestions that we have received.

"J. Rennie Blair"
J.Rennie Blair
President

**Sur American
Gold Corporation**
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

SmytheRatcliffe.com

7th Floor, Marine Building

355 Burrard Street

Vancouver, B.C. V6C 2G8

SmytheRatcliffe
CHARTERED ACCOUNTANTS

facsimile: 604.688.4675

telephone: 604.687.1231

AUDITORS' REPORT

TO THE SHAREHOLDERS OF SUR AMERICAN GOLD CORPORATION

We have audited the consolidated balance sheet of Sur American Gold Corporation as at December 31, 2004 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2003 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 30, 2004.

"Smythe Ratcliffe"

Chartered Accountants

Vancouver, British Columbia
April 25, 2005

Sur American Gold Corporation

CONSOLIDATED BALANCE SHEETS

	December 31,	
	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,171,284	\$ 935,315
Amounts receivable and advances	16,123	20,063
Prepaid expenses	<u>6,766</u>	<u>4,833</u>
	2,194,173	960,211
INVESTMENTS IN AND ADVANCES TO AFFILIATES (Note 4)	3,496,793	1,825,401
CAPITAL ASSETS (Note 5)	<u>49,393</u>	<u>69,046</u>
	\$ <u>5,740,359</u>	\$ <u>2,854,658</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 293,132	\$ 273,126
Loans payable (Note 6)	<u>43,936</u>	<u>498,877</u>
	337,068	772,003
NON-CONTROLLING INTEREST IN SUBSIDIARY	<u>211,326</u>	<u>212,668</u>
	<u>548,394</u>	<u>984,671</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 7)	13,574,085	9,874,074
CONTRIBUTED SURPLUS (Note 8)	1,966,290	902,324
RETAINED EARNINGS (DEFICIT)	<u>(10,348,410)</u>	<u>(8,906,411)</u>
	<u>5,191,965</u>	<u>1,869,987</u>
	\$ <u>5,740,359</u>	\$ <u>2,854,658</u>
GOING CONCERN AND NATURE OF OPERATIONS (Note 1)		
SUBSEQUENT EVENTS (Note 14)		

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

Approved by the Board "J. Rennie Blair" Director "Alicia Nicholson" Director

Sur American Gold Corporation

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

	Years ended December 31,	
	2004	2003
EXPENSES		
Bank charges and interest	\$ 2,181	\$ 2,409
Depreciation and amortization	23,851	12,993
Foreign exchange loss	1,950	4,853
Interest on loan payable	29,060	41,151
Legal and professional	62,430	49,855
Office and miscellaneous	31,151	20,594
Regulatory and shareholder costs	134,973	96,231
Rent	26,750	26,000
Salaries and benefits	115,425	90,000
Telephone and fax	8,249	3,516
Travel and accommodations	19,984	6,946
Stock-based compensation	<u>1,597,300</u>	<u>1,043,414</u>
INCOME (LOSS) BEFORE OTHER ITEM	<u>(2,053,304)</u>	<u>(1,397,962)</u>
OTHER ITEM		
Interest income	<u>609,963</u>	<u>171,190</u>
NET INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	(1,443,341)	(1,226,772)
NON-CONTROLLING INTEREST	<u>1,342</u>	<u>-</u>
NET INCOME (LOSS) FOR THE YEAR	(1,441,999)	(1,226,772)
RETAINED EARNINGS (DEFICIT), beginning of year	<u>(8,906,411)</u>	<u>(7,679,639)</u>
RETAINED EARNINGS (DEFICIT), end of year	\$ <u>(10,348,410)</u>	\$ <u>(8,906,411)</u>
EARNINGS (LOSS) PER SHARE, basic and diluted	\$ <u>(0.03)</u>	\$ <u>(0.03)</u>

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

Sur American Gold Corporation

CONSOLIDATED STATEMENTS OF CASH FLOW

	Years ended December 31,	
	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss) for the year	\$ (1,441,999)	\$ (1,226,772)
Adjustments to reconcile net cash provided by (used in) operating activities		
Depreciation and amortization	23,851	12,993
Stock-based compensation	1,597,300	1,043,414
Unpaid interest income	(581,226)	(167,814)
Non-controlling interest in subsidiary	(1,342)	-
Decrease (increase) in		
Amounts receivable and advances	3,940	4,455
Prepaid expenses	(1,933)	968
Increase (decrease) in		
Accounts payable and accrued liabilities	20,006	87,989
	<u>(381,403)</u>	<u>(244,767)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of capital assets	(4,198)	(50,868)
Investment in affiliates	(31,728)	-
Advances to affiliates	(1,058,438)	(741,598)
Cash held by acquired subsidiary	-	1,649
	<u>(1,094,364)</u>	<u>(790,817)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuances of common shares	3,339,700	1,916,800
Share issue costs paid	(247,993)	(26,750)
Repayment of loans payable	(379,971)	-
	<u>2,711,736</u>	<u>1,890,050</u>
INCREASE IN CASH DURING THE YEAR	1,235,969	854,466
CASH, beginning of year	<u>935,315</u>	<u>80,849</u>
CASH, end of year	\$ <u><u>2,171,284</u></u>	\$ <u><u>935,315</u></u>

See Note 13.

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

Sur American Gold Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

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 (See Notes 2 and 3).

For the year ended December 31, 2004 the Company incurred a net loss of \$ 1,441,999 (2003 - \$ 1,226,772) and as at December 31, 2004 had a deficit of \$ 10,348,410 (2003 - \$ 8,906,411). The Company's ability to continue in operation is dependent on its ability to secure additional financing to fund ongoing administrative, and planned exploration, 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 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which necessarily involves the use of estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of significant accounting policies summarized below.

Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Exploradora La Esperanza S.A., and its 70% owned subsidiary Sabena Limited. All intercompany transactions and balances are eliminated on consolidation.

Revenue recognition

Interest income is recognized ratably as earned and when collection is believed to be reasonably assured.

Resource interests

Costs incurred to acquire and explore a resource interest are capitalized. These capitalized costs are periodically assessed for impairment and an impairment change is recognized in the accounts upon abandonment, upon failure to detect economically recoverable materialization or when exploration activities are not anticipated to occur or to continue in the foreseeable future.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a declining balance basis at annual rates between 20% and 30%.

Earnings (loss) per share

Earnings (loss) per share is determined using the weighted-average number of common shares outstanding during the year, which amounted to 57,352,180 (2003 - 38,309,081) common shares. Diluted earnings (loss) per share has not been presented separately as the effect of common shares issuable on exercise of warrants and stock options is anti-dilutive.

Sur American Gold Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

2. ACCOUNTING POLICIES - continued

Foreign currency translation

Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange on the balance sheet date and non-monetary assets and liabilities at historical rates. Revenues and expenses are translated at appropriate transaction date rates except for depreciation and amortization, which are translated at historical rates. Gains and losses on translation are included in income.

Income taxes

Income taxes are recorded on a tax allocation basis. Under this method, current income taxes are recognized for the estimated income taxes payable for the year. Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are recognized using enacted income tax rates. Future income tax assets are recognized with respect to deductible temporary differences and loss carryforwards only to the extent their realization is considered more likely than not.

Stock-based compensation

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus.

3. BUSINESS COMBINATION

In June 2003 the Company acquired a 70% equity interest in an Australian corporation, Sabena Limited ("Sabena"), in exchange for 5,000,000 common shares issued from treasury. The remaining 30% of Sabena is held by two individuals, who are also presently directors of Sabena and the Company and who are former directors of the vendor, Eastern Corporation, an Australian public company.

At the date of acquisition Sabena held: an option, exercisable on payment of \$ 150,000 Australian dollars to a corporation with certain directors in common, which was exercised subsequent to the date of acquisition, to acquire a 40% equity interest in Philco Mining Corporation, a Philippine corporation that holds interests in several unproven mineral exploration projects; a 50% interest in the T'Boli Gold Project joint venture, a Philippine mineral exploration joint venture that holds interests in several mineral exploration projects; and an option to acquire the mineral processing rights to all mineralization found on the above noted projects. The Company believes its mineral processing rights would be limited to a 40% interest in such processing due to applicable foreign ownership restrictions in place under Philippine law.

During the 2004 fiscal year the Company exchanged its 50% interest in the joint venture for a 40% equity interest in the Philippine corporation that held the legal rights to the mineral interests. This was done to comply with the Philippine 40% foreign ownership restriction.

Sur American Gold Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

3. BUSINESS COMBINATION - continued

The acquisition has been accounted for using the purchase method. The cost of acquisition, being \$ 500,000 (\$ 0.10 per share) was allocated as follows:

Assets acquired:

Option to acquire a 40% equity interest in Philco Mining Corporation	\$	385,245
50% interest in T'Boli Gold Project joint venture		385,244
Cash		<u>1,649</u>
		772,138

Liabilities assumed:

Accounts payable and accrued liabilities		59,470
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Non-controlling interest in subsidiary		<u>212,668</u>
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Fair value of consideration issued	\$	<u><u>500,000</u></u>
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The operating results of Sabena have been included in these consolidated financial statements from the effective date of acquisition of June 18, 2003. Sabena is essentially a holding company and is therefore inactive.

See Note 14.

4. INVESTMENTS IN AND ADVANCES TO AFFILIATES

The Company holds equity interests in three Philippine entities engaged in the exploration of unproven mineral interests located in the Philippines.

	<u>2004</u>	<u>2003</u>
Philco Mining Corporation		
Equity interest		
Acquisition cost of option to acquire 40% equity interest	\$ 385,245	\$ 385,245
Payment to exercise option to acquire 40% equity interest	<u>145,500</u>	<u>145,500</u>
	530,745	530,745
Allocation of 50% of acquisition cost to cost of 40% equity interest in Batoto Resources Corporation	<u>(265,372)</u>	<u>(265,372)</u>
	265,373	265,373
Additional investment made during 2004	<u>29,365</u>	<u>—</u>
	294,738	265,373
Mineral exploration advances	1,398,069	741,598
Interest receivable	<u>653,408</u>	<u>167,814</u>
	<u><u>2,346,215</u></u>	<u><u>1,174,785</u></u>

Sur American Gold Corporation
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

4. **INVESTMENTS IN AND ADVANCES TO AFFILIATES** – continued

	<u>2004</u>	<u>2003</u>
Batoto Resources Corporation		
Equity interest		
Allocation of 50% of acquisition cost of option to acquire 40% equity interest in Philco Mining Corporation	\$ 265,372	\$ 265,372
Additional investment during 2004	<u>2,363</u>	<u>—</u>
	267,735	265,372
Mineral exploration advances	<u>5,578</u>	<u>—</u>
	<u>273,313</u>	<u>265,372</u>
 Tribal Mining Corporation		
Equity interest		
Exchange of 50% interest in joint venture for a 40% equity interest	385,244	385,244
Mineral exploration advances	396,389	—
Interest receivable	<u>95,632</u>	<u>—</u>
	<u>877,265</u>	<u>385,224</u>
	\$ <u>3,496,793</u>	\$ <u>1,825,401</u>

The advances bear interest at 36% per annum, compounded monthly. The Company's ability to recover the investments and mineral exploration advances is dependent upon the investees' success in locating economically recoverable mineral deposits and in successfully developing a profitable extraction, processing and marketing business, or on the sale of the underlying interests in an amount sufficient to allow for repayment of the advances and accrued interest and recovery of the investments.

Batoto Resources Corporation was established after the acquisition of Sabena and holds certain unproven mineral interests previously held by Philco Mining Corporation. As a result, \$ 265,372 of the \$ 530,475 acquisition cost of the interest in Philco Mining Corporation was assigned to the interest in Batoto Resources Corporation.

5. **CAPITAL ASSETS**

	<u>2004</u>			<u>2003</u>
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net</u>	<u>Net</u>
Vehicle	\$ 45,646	\$ 18,245	\$ 27,401	\$ 38,800
Office furniture and equipment	<u>108,709</u>	<u>86,717</u>	<u>21,992</u>	<u>30,246</u>
	\$ <u>154,355</u>	\$ <u>104,962</u>	\$ <u>49,393</u>	\$ <u>69,046</u>

Sur American Gold Corporation
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004 and 2003

6. LOANS PAYABLE	<u>2004</u>	<u>2003</u>
Loan payable bearing interest at 14% per annum, unsecured and due on demand	\$ 43,936	\$ 293,936
Due to directors without interest, repaid during 2004	–	44,441
Repaid during 2004	–	15,000
Due to a corporation with certain directors in common (\$ 150,000 Australian dollars), repaid during 2004	<u>–</u>	<u>145,500</u>
	<u>\$ 43,936</u>	<u>\$ 498,877</u>

7. SHARE CAPITAL

Authorized

Unlimited common shares without par value

	<u>2004</u>		<u>2003</u>	
	<u>Shares</u>	<u>\$</u>	<u>Shares</u>	<u>\$</u>
Issued				
Beginning of year	50,379,348	\$ 9,900,824	26,801,063	\$ 6,573,394
Common shares issued for:				
Private placements	1,074,766	1,150,000	9,657,000	1,574,250
Exercise of warrants	7,702,000	1,728,700	1,432,000	159,800
Exercise of stock options	3,350,000	994,334	2,675,000	419,380
Acquisition of subsidiary	–	–	5,000,000	500,000
Settlement of debt	<u>130,000</u>	<u>74,970</u>	<u>4,814,285</u>	<u>674,000</u>
	62,636,114	13,848,828	50,379,348	9,900,824
Less: Share issue costs	<u>–</u>	<u>274,743</u>	<u>–</u>	<u>26,750</u>
	<u>62,636,114</u>	<u>\$ 13,574,085</u>	<u>50,379,348</u>	<u>\$ 9,874,074</u>

(a) During the year ended December 31, 2004 the Company completed a private placement of 1,074,766 units at \$ 1.07 per unit for gross proceeds of \$ 1,150,000. Each unit consisted of one common share and one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional common share, for a period of two years, for \$ 1.55 on or before April 30, 2005 and \$ 2.10 on or before April 30, 2006. A commission of \$ 80,500 in cash and 32,243 share purchase warrants exercisable at \$1.07 per share was paid. The warrants are exercisable on the same terms as noted above.

(b) At December 31, 2004 the Company had outstanding warrants issued, pursuant to various private placements, which may be exercised to purchase 2,217,626 common shares. The warrants expire at various dates through April 2006.

Sur American Gold Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

7. SHARE CAPITAL - continued

Details of warrants issued during the years ended December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Issued, beginning of year	9,350,000	1,100,000
Issued pursuant to private placements	569,626	9,682,000
Exercised	<u>(7,702,000)</u>	<u>(1,432,000)</u>
	<u>2,217,626</u>	<u>9,350,000</u>

The following table summarizes information about warrants issued and exercisable at December 31, 2004.

<u>Exercise price</u>	<u>Warrants outstanding</u>	<u>Expiry date</u>
\$ 0.20	458,000	March 27, 2005
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>2,217,626</u>	

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

(c) During the year ended December 31, 2003 the Company completed:

- i. a private placement of 5,600,000 units at \$ 0.10 per unit, for gross proceeds of \$ 560,000. Each unit consisted of one common share and one warrant. Each warrant entitles the holder to purchase one additional common share, for a period of two years, for \$ 0.15 on or before March 27, 2004 and \$ 0.20 on or before March 27, 2005. A commission of \$ 2,500 in cash and 25,000 warrants was paid on a portion of the private placement. Persons related to a director purchased 22,000 units of the private placement; and
- ii. a private placement of 4,000,000 units at \$ 0.25 per unit, for gross proceeds of \$ 1,000,000. Each unit consisted of one common share and one warrant. Each warrant entitles the holder to purchase one additional common share, for a period of two years, for \$ 0.35 until November 19, 2004 and \$ 0.50 until November 19, 2005. A commission of \$ 10,000 in cash and 57,000 units was paid on a portion of the private placement. Directors and a person related to a director purchased 724,000 units of the private placement.

(d) See also Note 14.

8. 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.

Sur American Gold Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

8. STOCK-BASED COMPENSATION - continued

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

	<u>Options outstanding</u>	<u>Weighted average exercise price</u>
Balance at January 1, 2003	2,100,000	\$ 0.12
Awarded	5,575,000	\$ 0.17
Expired	(50,000)	0.25
Exercised	<u>(2,675,000)</u>	<u>0.10</u>
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>0.13</u>
Balance at December 31, 2004	<u>5,905,000</u>	\$ <u>0.67</u>

The following summarizes information about stock options outstanding at December 31, 2004:

<u>Exercise price</u>	<u>Number outstanding and exercisable</u>	<u>Expiry date</u>
\$ 0.10	50,000	May 2007
0.11	465,000	September 2008
0.15	150,000	September 2008
0.45	740,000	December 2008
0.40	<u>4,500,000</u>	September 2009
	<u>5,905,000</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:

	<u>2004</u>	<u>2003</u>
Risk-free interest rate	3.0%	2.8 to 4.13%
Estimated volatility	116%	134% to 164%
Expected life	5 years	5 years

The average fair value of stock options awarded during the 2004 and 2003 fiscal years, calculated using the Black-Scholes option pricing model, was \$ 0.27 and \$ 0.19.

Sur American Gold Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

8. **STOCK-BASED COMPENSATION** - continued

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.

9. **INCOME TAXES**

As at December 31, 2004, the Company has approximately \$ 2,600,000 of non-capital losses available to offset future taxable income in Canada which expire between 2005 and 2009. The potential benefit of these losses have not been recognized in the consolidated financial statements as there is no reasonable assurance such benefit will be realized.

10. **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, amounts receivable and advances, investments in and advances to affiliates, accounts payable and accrued liabilities and loans payable.

Fair value

The fair value of cash, amounts receivable and advances and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

The fair value of the interest-bearing loans payable is believed to approximate the carrying amount as the loans is believed to bear fair market rates of interest for debt of similar risk. The fair value of the amounts due to directors is not readily obtainable.

It is not practicable to determine the fair value of the investments in and advances to affiliates.

Interest rate risk

The interest-bearing loans payable bear interest at fixed rates, and the amounts due to directors are non-interest bearing. Therefore these amounts do not expose the Company to interest rate cash flow risk.

Credit risk

The Company's maximum exposure to credit risk is represented by the book value of the Company's financial instruments. Credit risk associated with advances to affiliates is concentrated in minority-held, mineral exploration entities located in the Philippines.

11. **RELATED PARTY TRANSACTIONS**

Included in amounts receivable and advances is \$ 1,519 (2003 - \$ 9,125) due from directors.

Included in accounts payable and accrued liabilities is \$ 185,672 (2003 - \$ 177,026) payable to directors and a corporation controlled by a director.

During the year, gross rent of \$ 24,000 (2003 - \$ 26,000) was paid to directors.

See Notes 6,7 and 8.

Sur American Gold Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

12. 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.

	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>

	2003				
	Canada	Australia	Philippines	Colombia	Consolidated
Current assets	\$ 952,168	\$ 1,833	\$ -	\$ 6,210	\$ 960,211
Investments in and advances to affiliates	-	-	1,825,401	-	1,825,401
Capital assets	<u>51,847</u>	<u>-</u>	<u>-</u>	<u>17,199</u>	<u>69,046</u>
	\$ <u>1,004,015</u>	\$ <u>1,833</u>	\$ <u>1,825,401</u>	\$ <u>23,409</u>	\$ <u>2,854,658</u>

13. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2004	2003
Investing activities		
Acquisition of subsidiary	\$ -	\$ (770,489)
Financing activities		
Common shares issued to acquire subsidiary	-	500,000
Common shares issued for subscriptions received	-	90,000
Subscription settled with common shares	-	(90,000)
Debt settled for common shares	74,970	674,000
Shares issued to settle debt	(74,970)	(674,000)
Non-controlling interest in subsidiary	-	212,668
Notes payable issued to settle accounts payable and accrued liabilities	<u>-</u>	<u>-</u>
	\$ <u>-</u>	\$ <u>57,821</u>

The Company has paid interest of \$ 24,060 (2003 - \$ 71,712).

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2004:

- 458,000 share purchase warrants were exercised for proceeds of \$ 91,600.
- 110,000 stock options were exercised for proceeds of \$ 16,500.

Sur American Gold Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

14. **SUBSEQUENT EVENTS** - continued

- Proposed to acquire the remaining 30% equity interest in Sabena Limited, that is presently held by two directors, in exchange for the issue of 10,000,000 common shares from treasury. The TSX Venture Exchange has conditionally approved the purchase subject to filing of additional documentation and ratification of the proposal by the Company's shareholders. The Company intends to table this matter at the Company's next Annual General Meeting, which is scheduled to be held on June 17, 2005.

MANAGEMENT

Rennie Blair, *President, Chief Executive Officer and Director*

Mr Blair has over 30 years experience in mining geology, mine planning and mineral exploration. He has wide experience in mining and exploration activities in Australia, Papua New Guinea and North and South America.

Alicia Nicholson, *Chief Financial Officer, Vice President Finance, Company Secretary and Director(1)*

Ms Nicholson is a mining/financial accountant with 25 years experience in the mineral exploration, mining and construction industries.

Garry Clark, *Director (1)*

Mr. Clark has more than 35 years experience in mine and exploration geology in Australia and South East Asia. Mr. Clark was part of the original team to recognize the potential of the Philippines properties.

Alan Phillips, *Director*

Mr. Phillips has been a director, executive director and chairman of Australian listed public companies covering a period of 30 years, specializing in start-up and turn-around across a broad range of industries, but predominantly in the mining exploration and technology industries.

Doug Evans, *Director (1)*

Dr. Evans has more than 25 years experience in the medical field and considerably broadens the experience available to the board.

Brett Taylor, *VP Operations*

Mr. Taylor, an Australian citizen resident in the Philippines since 1996 has engineering and economic qualifications and extensive experience in corporate development. Mr. Taylor is accredited with for managing the team that secured the Company's portfolio of properties.

Melanio Andresan, *Attorney and Chairman of the Philippine Companies.*

Mr. Andresan has been involved in indigenous peoples issues for more than 30 years and has been appointed to numerous government bodies which deal with indigenous issues. His legal experience is broad and includes working on the Local Government Code, the 1995 Mining Act, the indigenous Peoples Rights Act and various Environmental Laws. He is a widely respected lawyer, who has assisted many community based groups and is a key member of the Company's team.

Justino Estoque, *Chief Geologist*

Mr. Estoque's 33 years professional and management experience in east and south Mindanao has covered all facets of exploration and small scale mining development with several of the most respected mining companies in the Philippines.

Warlito Abaga, *Chief Mining Engineer*

Mr Abaga is a licenced mining engineer and has in excess of 20 years professional experience in both underground and surface mining operations in Mindanao. He is a member of the Philippines Society of Mining Engineers and the Mindanao Association of Mining Engineers. His principal role with the Company is to progress the advanced exploration projects through to feasibility and mine development.

(1) *Member of the Audit Committee*

CORPORATE DATA

SYMBOL STOCK EXCHANGE AND TRADING:

TSX Venture Exchange, Symbol SUR-V

SHARE STRUCTURE AS OF DECEMBER 31, 2004:

Issued and Outstanding: 62,636,114

Fully Diluted: 70,758,740

LEGAL COUNSEL:

Gowling, Lafleur Henderson LLP
Barristers and Solicitors
1400, 700-2nd Street SW
Calgary, Alberta T2P 4V5

AUDITORS:

SmytheRatcliffe
Chartered Accountants
7th Floor Marine Building
355 Burrard St, Vancouver, BC
V6C 2G8

TRUST AGENT:

Computershare Trust Company of Canada
3rd Floor, 510 Burrard St
Vancouver, BC V6H 4C2

HEAD OFFICE

2300-1066 West Hastings Street
Vancouver, BC, V6E 3X2
Phone 604 601-8270, Fax 604 904-8957
e-mail : suramerican@telus.net
Website: <http://www.surgold.com>