

**Sur American  
Gold Corporation**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
*(Expressed in Canadian Dollars, unless otherwise noted)*  
**December 31, 2002, 2001 and 2000**



## AUDITORS' REPORT

To the Shareholders of  
Sur American Gold Corporation

We have audited the consolidated balance sheets of Sur American Gold Corporation as at December 31, 2002 and 2001 and the consolidated statements of loss and deficit and cash flow for the years ended December 31, 2002, 2001 and 2000. 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 audits.

We conducted our audits in accordance with Canadian and United States 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, 2002 and 2001 and the results of its operations and cash flow for the years ended December 31, 2002, 2001 and 2000 in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected assets, liabilities and shareholders' equity as at December 31, 2002 and 2001 and results of operations for the years ended December 31, 2002, 2001 and 2000 to the extent summarized in Note 14 to the consolidated financial statements.

***"D&H Group"***

Vancouver, B.C.  
March 28, 2003, except for Notes 15(d) and (e)  
which are as of April 14, 2003

**Chartered Accountants**



## **COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA – U.S. REPORTING DIFFERENCE**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Our report to the shareholders dated March 28, 2003, except for Notes 15(d) and (e) which are as of April 14, 2003, is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

***“D&H Group”***

Vancouver, B.C.  
March 28, 2003, except for Notes 15(d) and (e)  
which are as of April 14, 2003

**Chartered Accountants**

# Sur American Gold Corporation

## CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian dollars, unless otherwise noted)

	December 31,	
	2002	2001
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 80,849	\$ 36,948
Accounts receivable and advances	24,518	11,771
Prepaid expenses	<u>5,801</u>	<u>15,738</u>
	111,168	64,457
RESOURCE INTERESTS (Note 4)	—	99,233
CAPITAL ASSETS (Note 5)	<u>31,171</u>	<u>40,908</u>
	\$ <u>142,339</u>	\$ <u>204,598</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 125,668	\$ 642,099
Loan payable (Note 6)	<u>—</u>	<u>250,000</u>
	125,668	892,099
NOTES PAYABLE (Note 6)	<u>1,027,377</u>	<u>—</u>
	<u>1,153,045</u>	<u>892,099</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 7)	6,573,394	6,343,394
SHARES SUBSCRIBED (Note 7)	90,000	110,000
CONTRIBUTED SURPLUS (Note 8)	5,539	—
RETAINED EARNINGS (DEFICIT)	<u>(7,679,639)</u>	<u>(7,140,895)</u>
	<u>(1,010,706)</u>	<u>(687,501)</u>
	\$ <u>142,339</u>	\$ <u>204,598</u>
Going concern and nature of operations (Note 1)		

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**  
*(Expressed in Canadian dollars, unless otherwise noted)*

	Years ended December 31,		
	2002	2001	2000
<b>EXPENSES</b>			
Bank charges and interest	\$ 897	\$ 1,376	\$ 3,820
Depreciation and amortization	12,424	13,194	25,925
Foreign exchange (gain) loss	(615)	2,036	(14,272)
General exploration	—	109,434	132,042
Interest on note payable	39,923	36,895	34,542
Legal and professional	18,933	13,217	42,907
Office and miscellaneous	16,276	14,551	30,601
Regulatory and shareholder costs	27,642	29,051	33,914
Rent	31,349	38,052	42,184
Salaries and benefits	137,539	132,000	132,000
Telephone and fax	3,452	3,173	6,493
Travel and accommodations	<u>8,066</u>	<u>4,697</u>	<u>12,047</u>
<b>INCOME (LOSS) BEFORE OTHER ITEMS</b>	<u>(295,886)</u>	<u>(397,676)</u>	<u>(482,203)</u>
<b>OTHER ITEMS</b>			
Interest income	82	426	603
Impairment of resource interests (Note 4)	(242,940)	(2,028,941)	(1,856,381)
Loss on disposal of capital assets	<u>—</u>	<u>(6,631)</u>	<u>(195,540)</u>
	<u>(242,858)</u>	<u>(2,035,146)</u>	<u>(2,051,318)</u>
<b>NET INCOME (LOSS) FOR THE YEAR</b>	(538,744)	(2,432,822)	(2,533,521)
<b>RETAINED EARNINGS (DEFICIT), beginning of year</b>	<u>(7,140,895)</u>	<u>(4,708,073)</u>	<u>(2,174,552)</u>
<b>RETAINED EARNINGS (DEFICIT), end of year</b>	\$ <u><u>(7,679,639)</u></u>	\$ <u><u>(7,140,895)</u></u>	\$ <u><u>(4,708,073)</u></u>
<b>EARNINGS (LOSS) PER SHARE, basic and diluted</b>	\$ <u><u>(0.02)</u></u>	\$ <u><u>(0.10)</u></u>	\$ <u><u>(0.12)</u></u>

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

# Sur American Gold Corporation

## CONSOLIDATED STATEMENTS OF CASH FLOW

(Expressed in Canadian dollars, unless otherwise noted)

	Years ended December 31,		
	2002	2001	2000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net income (loss) for the year	\$ (538,744)	\$ (2,432,822)	\$ (2,533,521)
Adjustments to reconcile net cash provided by operating activities			
Depreciation and amortization	12,424	13,194	25,925
Impairment of resource interests	242,940	2,028,941	1,856,381
Loss on disposal of capital assets	—	6,631	195,540
Stock-based compensation	5,539	—	—
Decrease (increase) in			
Accounts receivable and advances	(12,747)	(3,228)	(56)
Prepaid expenses	9,937	32,709	(5,809)
Increase (decrease) in			
Accounts payable and accrued liabilities	<u>380,946</u>	<u>240,991</u>	<u>263,425</u>
	<u>100,295</u>	<u>(113,584)</u>	<u>(198,115)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Expenditures on resource interests	(143,707)	(99,233)	(63,163)
Purchase of capital assets	(2,687)	(907)	(3,095)
Proceeds from disposal of capital assets	<u>—</u>	<u>5,808</u>	<u>133,083</u>
	<u>(146,394)</u>	<u>(94,332)</u>	<u>66,825</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from share issuance	—	130,000	130,000
Share subscription received	<u>90,000</u>	<u>110,000</u>	<u>—</u>
	<u>90,000</u>	<u>240,000</u>	<u>130,000</u>
<b>INCREASE (DECREASE) IN CASH DURING THE YEAR</b>	43,901	32,084	(1,290)
CASH, beginning of year	<u>36,948</u>	<u>4,864</u>	<u>6,154</u>
CASH, end of year	\$ <u><u>80,849</u></u>	\$ <u><u>36,948</u></u>	\$ <u><u>4,864</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

(Expressed in Canadian dollars, unless otherwise noted)  
December 31, 2002, 2001 and 2000

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### 1. GOING CONCERN AND NATURE OF OPERATIONS

The Company is incorporated under the laws of the Province of Alberta. Its principal business activity is natural resource exploration.

As at December 31, 2002 the Company had a working capital deficiency of \$ 14,500 (2001 - \$ 827,642), and a deficit of \$ 7,679,639 (2001 - \$ 7,140,895). 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.

Significant differences between Canadian GAAP and United States generally accepted accounting principles ("U.S. GAAP") are disclosed in Note 14.

#### Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Exploradora La Esperanza S.A. ("Exploradora").

#### 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 mineralization 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 straight-line basis over estimated useful lives of five to ten years.

#### 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 25,977,228 (2001 - 23,382,433) common shares. Diluted earnings (loss) per share has not been presented separately as the effect of common shares issuable on exercise of share purchase warrants and stock options is anti-dilutive.

**Sur American Gold Corporation**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*(Expressed in Canadian dollars, unless otherwise noted)*  
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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.

3. **CHANGE IN ACCOUNTING POLICY**

On January 1, 2002 the Company adopted the provisions of the new Section 3870 “*Stock-Based Compensation and Other Stock Based Payments*” of the Canadian Institute of Chartered Accountants’ Handbook (“Section 3870”). Section 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. Section 3870 recommends that certain stock-based transactions, such as the granting of stock options, be accounted for at fair value. The section is only applicable to transactions that occurred on or after January 1, 2002.

As permitted by Section 3870, the Company did not adopt the fair value method for certain stock-based compensation granted to employees and directors. The additional disclosure required by Section 3870 as a result of the Company not adopting the fair value method is provided in Note 8. As permitted by Section 3870, the additional disclosure for the 2001 fiscal year will not be presented.

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

4. **RESOURCE INTERESTS**

	<u>2002</u>	<u>2001</u>
Deferred mineral exploration	\$ <u>          =</u>	\$ <u>    99,233</u>

During the year ended December 31, 2002 the Company wrote off capitalized costs of \$242,940 relating to its mineral interests in the United States and did not renew the claims.

During the year ended December 31, 2001 the Company determined that capitalized costs relating to its Colombian mineral interests and its oil and gas interests were impaired on the basis that further exploration of the interests in the foreseeable future was unlikely and sufficient funds to finance such exploration work was not readily available. Accordingly, \$ 2,028,941 of capitalized costs were charged to earnings.

# Sur American Gold Corporation

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, unless otherwise noted)

### December 31, 2002, 2001 and 2000

5.	<b>CAPITAL ASSETS</b>	2002		2001	
		Cost	Accumulated amortization	Net	Net
	Office furniture and equipment	\$ <u>98,636</u>	\$ <u>67,465</u>	\$ <u>31,171</u>	\$ <u>40,908</u>
6.	<b>NOTES PAYABLE</b>	2002		2001	
	Loan payable of \$ 250,000 and accrued interest payable \$ 43,936, due January 5, 2004, bearing interest at 14% per annum, unsecured			\$ 293,936	\$ 250,000
	Due to directors without interest, unsecured and due on January 5, 2004			718,441	—
	Due on January 5, 2004 without interest and unsecured			<u>15,000</u>	<u>—</u>
				1,027,377	250,000
	Less: Loan balance due on demand			<u>—</u>	<u>250,000</u>
				\$ <u>1,027,377</u>	\$ <u>—</u>

During the year ended December 31, 2002, two directors agreed to long-term repayment terms with respect to certain amounts due to them. These amounts were previously included in accounts payable and accrued liabilities. Concurrently, the holder of two demand loans also agreed to long-term repayment terms which includes unpaid interest of \$43,936 previously included in accounts payable and accrued liabilities.

#### 7. SHARE CAPITAL

Authorized

Unlimited common shares without par value

	2002		2001		2000	
	Shares	\$	Shares	\$	Shares	\$
Issued						
Beginning of year	24,501,063	\$ 6,343,394	20,801,063	\$ 5,973,394	17,834,396	\$ 5,593,394
Common shares issued:						
On settlement of debts	1,200,000	120,000	2,400,000	240,000	1,666,667	250,000
On exercise of warrants	—	—	1,300,000	130,000	—	—
For cash	<u>1,100,000</u>	<u>110,000</u>	<u>—</u>	<u>—</u>	<u>1,300,000</u>	<u>130,000</u>
	<u>26,801,063</u>	<u>\$ 6,573,394</u>	<u>24,501,063</u>	<u>\$ 6,343,394</u>	<u>20,801,063</u>	<u>\$ 5,973,394</u>

(a) During the year ended December 31, 2002 the Company settled accounts payable of \$ 120,000 (2001 - \$ 240,000) owed to directors of the Company by issuing 1,200,000 (2001 - 2,400,000) common shares.

(b) At December 31, 2002 the Company had received subscription proceeds of \$ 90,000 towards the private placement of 900,000 units at \$ 0.10 per unit. See Note 15(a).

# Sur American Gold Corporation

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, unless otherwise noted)

### December 31, 2002, 2001 and 2000

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#### 7. SHARE CAPITAL - continued

- (c) At December 31, 2002, 1,100,000 share purchase warrants, exercisable at \$0.10 per share until January 2004, remained outstanding.
- (d) During the year ended December 31, 2001, 1,300,000 share purchase warrants were exercised for \$ 130,000 and 1,300,000 shares were issued to a director of the Company.
- (e) During the year ended December 31, 2000 the Company completed a non-brokered private placement of 1,666,667 units at \$ 0.15 per unit. The units were issued in settlement of debts of \$ 150,000 owed to related parties and \$ 100,000 owed to unrelated parties. Each unit consisted of one common share and one share purchase warrant. The share purchase warrants expired unexercised.
- (f) During the year ended December 31, 2000 the Company also completed a private placement of 1,300,000 units at \$ 0.10 per unit for total proceeds of \$ 130,000. Each unit consisted of one common share and one share purchase warrant. See Note 7(d) above.

#### 8. STOCK-BASED COMPENSATION

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

The Company currently does not have a stock option plan and will be seeking shareholder approval of a new plan.

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, 2001	1,760,160	\$ 0.52
Options expired	<u>(1,035,160)</u>	<u>0.50</u>
Balance at January 1, 2002	725,000	0.56
Options expired	(375,000)	0.87
Options granted	<u>1,750,000</u>	<u>0.10</u>
Balance at December 31, 2002	<u>2,100,000</u>	<u>\$ 0.12</u>

# Sur American Gold Corporation

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, unless otherwise noted)

### December 31, 2002, 2001 and 2000

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#### 8. STOCK-BASED COMPENSATION - continued

The following summarized information about stock options outstanding at December 31, 2002.

Exercise price	Number outstanding and exercisable	Expiry date
\$ 0.25	350,000	September 2004
0.10	<u>1,750,000</u>	May 2007
	<u>2,100,000</u>	

As discussed in Note 3, effective January 1, 2002 the Company adopted Section 3870 in respect of accounting for stock-based compensation.

For stock-based compensation granted to consultants and other non-employees, Section 3870 requires the application of the fair value method of accounting. As a result, the Company has recognized compensation expense of \$5,539 for stock options granted to consultants during the year.

As the Company did not adopt the fair value method of accounting for stock options granted to employees and directors, Section 3870 requires disclosure of pro forma amounts that reflect the impact as if the Company had adopted the fair value based method of accounting. Had compensation costs for the Company's stock options granted to employees and directors been accounted for under the fair value method, the Company's net loss and loss per share would have increased as follows:

Net income (loss) as reported	\$ (538,744)
Pro forma stock option expense	<u>(90,993)</u>
Net income (loss) – pro forma	\$ <u>(629,737)</u>
Earnings (loss) per share – as reported	\$ (0.02)
Earnings (loss) per share – pro forma	\$ (0.02)

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

Risk-free interest rate	4.13%
Estimated volatility	134%
Expected life	5 years

The average fair value of stock options granted during the year, calculated using the Black-Scholes option pricing model, was \$ 0.06.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Expressed in Canadian dollars, unless otherwise noted)*  
**December 31, 2002, 2001 and 2000**

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### 9. INCOME TAXES

As at December 31, 2002, the Company has approximately \$ 2,200,000 of non-capital losses available to offset future taxable income in Canada which expire between 2004 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, accounts receivable and advances, accounts payable and accrued liabilities and notes payable.

#### **Fair value**

The fair value of cash, accounts 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 loan payable is believed to approximate the carrying amount as the loan is believed to bear a fair market rate of interest for debt of similar risk. The fair value of the amounts due to directors is not readily obtainable.

#### **Interest rate risk**

The loan payable bears interest at a fixed rate, and the amounts due to directors are non-interest bearing, and therefore they do not expose the Company to interest rate cash flow risk.

#### **Credit risk**

The Company does not believe it is exposed to any significant concentrations of credit risk.

### 11. RELATED PARTY TRANSACTIONS

Included in accounts receivable and advances is \$21,689 (2001 - \$ 9,128) due from directors of the Company.

Included in accounts payable and accrued liabilities is \$ 43,944 (2001 - \$ 547,113) payable to directors of the Company.

During the year, gross rent of \$ 30,000 (2001 - \$ 29,700) was paid to directors of the Company.

See Notes 6, 7 and 8.

# Sur American Gold Corporation

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, unless otherwise noted)

### December 31, 2002, 2001 and 2000

#### 12. SEGMENTED INFORMATION

The Company's corporate assets are located in Canada and natural resource exploration activities have occurred in the United States and Colombia.

	2002			
	Canada	United States	Colombia	Consolidated
Current assets	\$ 103,713	\$ -	\$ 7,455	\$ 111,168
Capital assets	13,972	-	17,199	31,171
Resource interests	-	-	-	-
	<u>\$ 117,685</u>	<u>\$ -</u>	<u>\$ 24,654</u>	<u>\$ 142,339</u>

  

	2001			
	Canada	United States	Colombia	Consolidated
Current assets	\$ 52,354	\$ -	\$ 12,103	\$ 64,457
Capital assets	21,326	-	19,582	40,908
Resource interests	-	99,233	-	99,233
	<u>\$ 73,680</u>	<u>\$ 99,233</u>	<u>\$ 31,685</u>	<u>\$ 204,598</u>

  

	2000			
	Canada	United States	Colombia	Consolidated
Current assets	\$ 53,115	\$ -	\$ 8,739	\$ 61,854
Capital assets	30,434	-	23,484	53,918
Resource interests	-	259,617	1,781,039	2,040,656
	<u>\$ 83,549</u>	<u>\$ 259,617</u>	<u>\$ 1,813,262</u>	<u>\$ 2,156,428</u>

#### 13. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2002	2001	2000
Financing activities			
Accounts payable and accrued liabilities settled for common shares	\$ (120,000)	\$ (240,000)	\$ (250,000)
Notes payable issued	777,377	-	-
Common shares issued to settle debts	<u>120,000</u>	<u>240,000</u>	<u>250,000</u>
Accounts payable and accrued liabilities settled through the issue of notes payable	<u>\$ (777,377)</u>	<u>\$ -</u>	<u>\$ -</u>

The Company has paid interest of \$ Nil (2001 - \$ Nil; 2000 - \$ 22,743).

# Sur American Gold Corporation

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, unless otherwise noted)

December 31, 2002, 2001 and 2000

### 14. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(a) These consolidated financial statements have been prepared in accordance with Canadian GAAP which differs in certain material respects from U.S. GAAP. Material differences between Canadian and U.S. GAAP and their effect on the Company's consolidated financial statements are summarized in the tables below.

	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Consolidated statements of loss and deficit</b>			
Net income (loss) for the year			
Canadian GAAP	\$ (538,744)	\$ (2,432,822)	\$ (2,533,521)
Impairment of mineral interests (i)	242,940	2,028,941	1,856,381
Expenditures on mineral interests (i)	(143,707)	(99,233)	(63,163)
Stock option plan (ii)	-	-	(2,272)
Other compensation expense (iv)	<u>-</u>	<u>(63,000)</u>	<u>(39,000)</u>
U.S. GAAP	\$ <u><u>(439,511)</u></u>	\$ <u><u>(566,114)</u></u>	\$ <u><u>(781,575)</u></u>
Earnings (loss) per share, basic and diluted – U.S. GAAP	\$ <u><u>(0.02)</u></u>	\$ <u><u>(0.02)</u></u>	\$ <u><u>(0.04)</u></u>
	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Consolidated balance sheets</b>			
Assets			
Canadian GAAP	\$ 143,339	\$ 204,598	\$ 2,156,428
Mineral interests (i)	<u>-</u>	<u>(99,233)</u>	<u>(1,781,039)</u>
U.S. GAAP	\$ <u><u>142,339</u></u>	\$ <u><u>105,365</u></u>	\$ <u><u>375,389</u></u>
Liabilities			
Canadian GAAP	\$ <u><u>1,153,045</u></u>	\$ <u><u>892,099</u></u>	\$ <u><u>891,107</u></u>
U.S. GAAP	\$ <u><u>1,153,045</u></u>	\$ <u><u>892,099</u></u>	\$ <u><u>891,107</u></u>
Shareholders' equity			
Canadian GAAP	\$ (1,010,706)	\$ (687,501)	\$ 1,265,321
Mineral interests (i)	<u>-</u>	<u>(99,233)</u>	<u>(1,781,039)</u>
U.S. GAAP	\$ <u><u>(1,010,706)</u></u>	\$ <u><u>(786,734)</u></u>	\$ <u><u>(515,718)</u></u>

#### (i) Mineral interests

Under Canadian GAAP costs incurred to acquire, explore and develop a mineral interest are capitalized. These capitalized costs are periodically assessed for impairment and an impairment charge is recognized in the accounts upon abandonment, upon failure to detect economically recoverable mineralization or when exploration activities are not anticipated to occur or to continue in the foreseeable future. Under U.S. GAAP acquisition and exploration costs are expensed as incurred. Development costs are expensed as incurred until economically recoverable mineral reserves are considered to be proven.

# Sur American Gold Corporation

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(Expressed in Canadian dollars, unless otherwise noted)

December 31, 2002, 2001 and 2000

### 14. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES - continued

#### (ii) Stock option plan for employees and directors

The Company had a stock option plan which reserved common shares for issuance to employees and directors. As described in Note 3, effective January 1, 2002 the Company adopted, on a prospective basis, Section 3870 which is similar to Statement of Financial Accounting Standards ("SFAS") 123 "Accounting for Stock-Based Compensation". Under U.S. GAAP for fiscal years ended before January 1, 2002 the Company has adopted the disclosure-only provisions of SFAS 123 for stock options granted to employees and directors. Accordingly, no compensation costs have been recognized for the Company's stock option plan for the fiscal years ended December 31, 2001 and 2000. Had compensation cost for the stock option plan been determined based on the fair value at the grant date for awards during the periods ended December 31, 2001 and 2000 consistent with the provisions of SFAS 123, the Company's net income (loss) and earnings (loss) per share would have been increased to the pro forma amounts indicated below:

	2001 \$	2000 \$
Net income (loss) – as reported under U.S. GAAP	\$ <u>(566,114)</u>	\$ <u>(781,575)</u>
Net income (loss) – pro forma	\$ <u>(566,114)</u>	\$ <u>(795,204)</u>
Earnings (loss) per share – as reported under U.S. GAAP	\$ <u>(0.02)</u>	\$ <u>(0.04)</u>
Earnings (loss) per share – pro forma	\$ <u>(0.02)</u>	\$ <u>(0.04)</u>

The fair market value of each option granted to an employee or director is estimated on the date of grant using the Black – Scholes option pricing model with the following assumptions used for grants during the years ended December 31, 2001 and 2000:

	2001	2000
Risk-free interest rate	–	6.68%
Expected volatility	–	105%
Expected lives	–	5 years

The Company's accounting for stock-based compensation for the fiscal year ended December 31, 2002, presented in Note 8, complies with U.S. GAAP.

#### (iii) Stock options granted to consultants and non-employees

The Company grants stock options which reserve common shares for issuance to consultants and other non-employees. Under U.S. GAAP, as noted above for the fiscal years ended December 31, 2001 and 2000, the Company has adopted the provisions of SFAS 123 for stock options granted to consultants and non-employees. Accordingly, the Company has recognized stock based compensation for these stock option grants using the fair value method.

# Sur American Gold Corporation

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, unless otherwise noted)

### December 31, 2002, 2001 and 2000

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#### 14. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES - continued

The fair value of each option granted to a consultant or other non-employee is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants during the years ended December 31, 2001 and 2000:

	2001	2000
Risk-free interest rate	–	6.68%
Expected volatility	–	105%
Expected lives	–	5 years

The Company's accounting for stock-based compensation for the fiscal year ended December 31, 2002, presented in Note 8, complies with U.S. GAAP.

#### (iv) Private placements of common stock

The Company conducts the majority of its equity financing pursuant to private placements. Under the policies of the TSX Venture Exchange, on which the Company's common stock is listed, the Company may provide a discount off the market price of the Company's common shares. U.S. GAAP requires the recognition of the market value of the Company's common shares as a credit to share capital, with a charge to operations for the portion of the discount relating to equity financings conducted with officers and directors of the Company and a charge to shareholders' equity, as a capital distribution, for the discount relating to the remaining portion of the equity financing.

#### (v) Deferred income taxes

Under Canadian GAAP, future income tax assets relating to the potential benefit of income tax loss carryforwards are not recognized unless it is more likely than not that the benefit will be realized. U.S. GAAP provides similar treatment, but requires that the benefit be recognized and offset by a valuation allowance.

As at December 31, 2002 the Company has fully reserved the \$ 634,000 potential income tax benefit of non-capital loss carryforwards, by a valuation allowance of the same amount, because realization of the potential income tax benefit does not appear to be likely.

(b) The Company's consolidated statements of cash flow comply with U.S. GAAP.

#### (c) New Technical Pronouncements

(i) In June 2001, the FASB, issued SFAS 143, "Accounting for Asset Retirement Obligations". SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 generally requires obligations associated with asset retirements to be recognized earlier and displayed as liabilities rather than as contra-assets. The pronouncement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not believe that the adoption of SFAS 143 will have any impact on its financial position or results of operations.

# Sur American Gold Corporation

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars, unless otherwise noted)

**December 31, 2002, 2001 and 2000**

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### 14. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES - continued

- (ii) In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." SFAS 146 generally requires a liability for a cost associated with an exit or disposal activity to be recognized and measured initially at its fair value in the period in which the liability is incurred. The pronouncement is effective for exit or disposal activities initiated after December 31, 2002. The Company does not believe that the adoption of SFAS 146 will have any impact on its financial position or results of operations.

### 15. SUBSEQUENT EVENTS

Subsequent to December 31, 2002 the Company:

- a) completed a private placement of 5.6 million units, issued at \$ 0.10 per unit, for cash of \$ 560,000. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant has a two-year term and is exercisable into one common share for \$ 0.15 in the first year and for \$ 0.20 in the second year. Included in the funds raised is \$ 90,000 received before December 31, 2002. In connection with the financing the Company paid a cash finders' fee of \$2,500 and issued 25,000 share purchase warrants exercisable on the terms noted above;
- b) issued 1,000,000 common shares on the exercise of outstanding stock options for cash of \$ 100,000;
- c) granted 1,250,000 stock options exercisable at \$0.10 per share for a five year term;
- d) entered into an agreement with Eastern Corporation Limited ("Eastern"), an Australian public company, to acquire up to a 70% interest in Eastern's wholly-owned subsidiary, Sabena Limited ("Sabena"). Sabena holds an interest in a suite of mineral exploration properties in the Philippines. Under the agreement the Company will be obligated to:
  - Fund \$ 4 million of mineral exploration expenditures on the Philippine properties over 5 years, and
  - Issue 5 million common shares over a 30 month period, 1.5 million of which have been issued.
- e) announced its intention to settle \$ 674,000 of notes payable to directors, see Note 6, through the issue of 4,814,285 common shares, subject to the approval of the shareholders who do not have a financial interest in the proposed settlement and of the TSX Venture Exchange.