

## AUDITORS' REPORT

### **To the Shareholders of MacMillan Gold Corp.**

We have audited the consolidated balance sheets of MacMillan Gold Corp. as at September 30, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits 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 September 30, 2002 and 2001 and the results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“signed”

Grant Thornton LLP  
*Chartered Accountants*

Toronto, Canada  
December 16, 2002

## Consolidated Balance Sheets

As at September 30

	2002	2001
<b>ASSETS</b>		
Current		
Cash	\$ 93,480	\$ 171,834
Accounts receivable	30,729	22,892
	<b>124,209</b>	194,726
Exploration properties (Note 3)	220,596	1,709,879
	<b>\$ 344,805</b>	\$ 1,904,605
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 111,343	\$ 46,757
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 4)	13,596,229	13,282,968
Deficit	13,362,767	11,425,120
	<b>233,462</b>	1,857,848
	<b>\$ 344,805</b>	\$ 1,904,605
Operations and going concern assumption (Note 1)		

On behalf of the Board

"Greg Van Staveren"  
Director

"Ross D. Lawrence"  
Director

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Operations and Deficit

Years ended September 30

	2002	2001
<b>EXPENSES</b>		
Administrative and general	\$ 219,170	\$ 217,276
Costs relating to proposed amalgamations	–	223,247
Depreciation	–	1,056
Write down of exploration properties	1,718,477	752,531
<b>Net loss</b>	<b>1,937,647</b>	<b>\$ 1,194,110</b>
<b>Deficit at beginning of year</b>	<b>11,425,120</b>	<b>10,231,010</b>
<b>Deficit at end of year</b>	<b>\$ 13,362,767</b>	<b>\$ 11,425,120</b>
<b>Loss per share (Note 6)</b>	<b>\$ 0.10</b>	<b>\$ 0.07</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows

Years ended September 30

	2002	2001
Cash was derived from (applied to)		
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (1,937,647)	\$ (1,194,110)
Depreciation	–	1,056
Write down of exploration properties	1,718,477	752,531
Loss on disposal of equipment and other assets	–	14,207
	<u>(219,170)</u>	<u>(426,316)</u>
Decrease (increase) in accounts receivable	(7,837)	9,867
Increase (decrease) in accounts payable and accrued liabilities	64,586	(37,963)
	<u>(162,421)</u>	<u>(454,412)</u>
<b>INVESTING ACTIVITIES</b>		
Exploration properties	(226,194)	(177,310)
Proceeds on disposal of equipment and other assets	–	11,200
	<u>(226,194)</u>	<u>(166,110)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of capital stock	310,261	–
<b>Net decrease in cash</b>	<b>(78,354)</b>	<b>(620,522)</b>
<b>Cash at beginning of year</b>	<b>171,834</b>	<b>792,356</b>
<b>Cash at end of year</b>	<b>\$ 93,480</b>	<b>\$ 171,834</b>
<b>Supplemental cash flow information</b>		
Non-cash item:		
Shares issued for exploration properties	\$ 3,000	\$ –

See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

Years ended September 30, 2002 and 2001

### NOTE 1 | OPERATIONS AND GOING CONCERN ASSUMPTION

MacMillan Gold Corp. (the "Company") is a publicly listed company continued under the Canada Business Corporations Act. The Company's common shares are listed on the TSX Venture Exchange. The Company, directly and through joint ventures, is engaged in the exploration and development of mineral properties primarily in Central and South America. The Company considers itself to be an exploration stage company.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. At September 30, 2002 the Company had working capital of \$12,866 and will require additional financing to meet its administrative expenses for the coming year and undertake further expenditures on exploration properties.

These financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

### NOTE 2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with accounting principles and industry practice generally accepted in Canada. Interests in joint ventures are accounted for on the proportionate consolidation basis whereby the Company's share of joint venture assets, liabilities, revenues and expenses are included in the consolidated financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

#### Cash

Cash includes cash on hand, balances with banks and deposits with maturities within three months.

#### Exploration properties

All direct costs associated with exploration properties are capitalized as incurred. If the property proceeds to development, these costs become part of preproduction and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off.

The amounts capitalized at any time represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties.

## Notes to the Consolidated Financial Statements

Years ended September 30, 2002 and 2001

### NOTE 2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **Equipment and related depreciation**

Equipment is recorded at cost. Depreciation on vehicles is recorded on the declining balance basis at an annual rate of 30% and is charged to exploration properties. Depreciation on office equipment is recorded on the straight-line basis at annual rates from 20% to 30%.

#### **Stock-based compensation plans**

The Company has a stock option plan, which is described in note 4 (ii). No compensation expense is recognized when options are granted. The consideration paid on exercise of options is credited to capital stock.

#### **Income taxes**

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

#### **Foreign currency translation**

Current assets and current liabilities denominated in foreign currencies are translated to Canadian funds at period end exchange rates while non-monetary items are translated at historical rates. Revenue and expense items denominated in foreign currencies are translated at average rates for the period with the exception of depreciation and amortization which are translated at historical rates. Translation gains and losses are included in the statements of operations and deficit.

### NOTE 3 | EXPLORATION PROPERTIES

#### **Mishi Lake Gold Property, Ontario**

In 1982, the Company acquired a 100% interest in a group of 1,027 mining claims in the Sault Ste. Marie Mining Division. Under an 1985 agreement, Granges Inc. ("Granges") earned a 50% interest by completing required exploration and by making option payments totalling \$300,000. The Company and Granges retained 566 claims and explored the property on a joint venture basis. In 1996, the Company acquired Granges' interest in the property for cash of \$225,000 and 600,000 of the Company's common shares having a value of \$390,000.

## Notes to the Consolidated Financial Statements

Years ended September 30, 2002 and 2001

### NOTE 3 | EXPLORATION PROPERTIES *(continued)*

In fiscal 1997, the Company agreed to sell its 100% interest in the remaining claims to Mishibishu Gold Corp. ("Mishibishu") and on closing, received cash of \$100,000. The sale was completed in fiscal 1998, upon the making by Mishibishu of required expenditures on the claims. The Company retains a 40% net profits royalty from Mishibishu.

In fiscal 1998, the Company and Mishibishu completed the sale of their respective interests in a mining lease (consisting of 30 of the claims) to River Gold Mines Ltd. for cash of \$1,400,000 and a production royalty on ore mined and milled from the claims in excess of 700,000 tonnes at a rate of \$1 per tonne from an open pit operation and \$2 per tonne from an underground operation. The Company's share of the cash proceeds was \$560,000 and it is entitled to 40% of any future production royalties. The Company continues to be entitled to a 40% net profits royalty from Mishibishu on the claims not sold to River Gold Mines Ltd.

Effective September 30, 2002, the carrying value of these interests was written off as the Company is not actively exploring the properties.

#### **Minas Santa Rosa and Aquila Pit Concessions – Peru**

The Company obtained the Minas Santa Rosa Concessions by staking in 1996. In January 1998, the Company entered into a joint venture agreement with Rio Tinto Mining and Exploration Limited ("Rio Tinto") under which the Company contributed the Minas Santa Rosa Concessions and Rio Tinto contributed the Aquila Pit Concessions to a joint venture exploration program managed and funded by Rio Tinto. The Company received US \$85,000 in both fiscal 1998 and 1999 from Rio Tinto in option payments. During 1998 and 1999 Rio Tinto spent approximately US \$1,500,000 on exploration of the properties. In October 1999, Rio Tinto withdrew from the agreement leaving the Company with title to all concessions under the joint venture. The company maintains these properties in good standing.

#### **Pasacancha Property – Peru**

In March 2000, the Company optioned three concessions (Pasacancha 1,2, and 6) covering 2,100 hectares from Inca Pacific Resources Inc. ("Inca Pacific"). The Company made a \$20,000 option payment to Inca Pacific in December 2000. In May 2000, the Company issued 200,000 common shares to Inca Pacific and a further 100,000 common shares in December 2001. The Company is required to issue an additional 100,000 common shares in each of December 2002 and December 2003 in order to continue to maintain this option in good standing.

#### **Mexican Exploration Projects**

The Company has five projects in Mexico held through a wholly-owned Mexican subsidiary, Exploracion Mac-Ore S.A. de C.V. ("Mac-Ore").

The Tetasairi Property in Sinaloa, is a 743 hectares property optioned for 100,000 common shares of the Company to be issued subject to regulatory approvals and a US \$1,000 cash payment which has been made. This property is subject to a 2.5% net smelter royalty. Mac-Ore has the right to purchase 1% of the royalty for US \$1,000,000.

## Notes to the Consolidated Financial Statements

Years ended September 30, 2002 and 2001

### NOTE 3 | EXPLORATION PROPERTIES (continued)

The La Violetta Property in Sonora is a 524 hectares property that was obtained by staking and has no option costs and no royalties attached. The El Socorro Property in Jalisco is a 200 hectares property also obtained by staking. This property is subject to a US\$ 10,000 finder's fee payable to prospectors. The Fiebre de Oro Property is a 1,700 hectares property in Jalisco, which was also obtained by staking and is also subject to a US \$10,000 finder's fee payable to prospectors.

The Cerro de Oro Project is a consolidation of 2,263 hectares in Zacatecas. One lot containing 76 hectares and twenty two lots containing 240 hectares were optioned under two agreements, which require combined option payments totalling US \$21,000 over a period of four years. No royalties are due on these claims. The remaining 1,947 hectares were acquired for US \$70,000 of option payments due over four years. These claims are subject to a 3% net smelter royalty. There is also a requirement to spend US \$500,000 over four years to complete the option earn in.

Carrying values	2002	2001
<b>Mishi Lake Gold Property</b>		
Acquisition costs	\$ 815,000	\$ 815,000
Exploration expenditures	5,580,674	5,577,374
Option payments/grants/royalties received	(1,304,212)	(1,304,212)
Write downs	(5,091,462)	(3,378,283)
	-	1,709,879
<b>Peruvian properties</b>		
Acquisition costs, net of recoveries	92,175	89,175
Exploration expenditures, net of recoveries	1,520,459	1,481,443
Option payments received	(289,535)	(289,535)
Write downs	(1,281,083)	(1,281,083)
	42,016	-
<b>Mexican Exploration Projects</b>		
Acquisition costs	9,490	-
Exploration expenditures	169,090	-
	178,580	-
	\$ 220,596	\$ 1,709,879

## Notes to the Consolidated Financial Statements

Years ended September 30, 2002 and 2001

### NOTE 4 | CAPITAL STOCK, COMMON SHARE OPTIONS AND WARRANTS

#### Authorized

The Company's authorized capital consists of an unlimited number of common shares without par value.

<b>i Common shares issued</b>	<i>Shares</i>	<i>Amount</i>
Balance, September 30, 2000 and 2001	18,071,626	\$ 13,282,968
Issued for interest in Pasacancha Property (note 3)	100,000	3,000
Issued in private placements (net of issue costs of \$25,739)	3,000,000	274,261
Issued on exercise of stock options	1,200,000	36,000
	<hr/>	
Balance, September 30, 2002	22,371,626	\$ 13,596,229

The Company is required to issue a further 200,000 common shares by December 2003 to maintain its interest in the Pasacancha Property. The Company is also required to issue, subject to regulatory approvals, 100,000 common shares under its option agreement for the Tetasairi Property in Mexico.

#### ii Common share options

The Company amended its stock option plan (the "Plan") in January 1995. Under the Plan, the directors of the Company can grant options to acquire common shares of the Company to qualified directors, officers, employees and persons providing ongoing services to the Company. Exercise prices cannot be less than the closing price of the Company's shares on the trading day preceding the date of grant subject to the TSX Venture Exchange minimum of \$0.10 and the maximum term of any option cannot exceed ten years. The options are 100% vested when granted, subject to a TSX Venture Exchange legend period if exercised in the first four months after grant.

Number of common shares approved by shareholders under the Plan	4,750,000
Maximum number allowed at September 30, 2002 due to TSX Venture Exchange limit equal to 20% of common shares issued	4,474,325
Number of options available to be granted under the plan	1,265,000
Available to be granted at September 30, 2002 due to TSX Venture Exchange limit equal to 20% of common shares issued	989,325

## Notes to the Consolidated Financial Statements

Years ended September 30, 2002 and 2001

### NOTE 4 | CAPITAL STOCK, COMMON SHARE OPTIONS AND WARRANTS (continued)

The following tables reflect the continuity of options for the years indicated.

Year ended September 30, 2001		Number of Common Shares				
<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Opening Balance</i>	<i>Options Granted</i>	<i>Options Exercised</i>	<i>Options Expired</i>	<i>Closing Balance</i>
April 2001	\$0.49	380,000	–	–	380,000	–
May 2002	\$0.41	350,000	–	–	–	350,000
August 2002	\$0.42	550,000	–	–	50,000	500,000
November 2002	\$0.45	100,000	–	–	100,000	–
March 2003	\$0.42	100,000	–	–	–	100,000
July 2004	\$0.26	50,000	–	–	–	50,000
September 2003	\$0.03	–	200,000	–	–	200,000
September 2005	\$0.03	–	1,000,000	–	–	1,000,000
		1,530,000	1,200,000	–	530,000	2,200,000

Year ended September 30, 2002		Number of Common Shares				
<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Opening Balance</i>	<i>Options Granted</i>	<i>Options Exercised</i>	<i>Options Expired</i>	<i>Closing Balance</i>
May 2002	\$0.41	350,000	–	–	350,000	–
August 2002	\$0.42	500,000	–	–	500,000	–
March 2003	\$0.42	100,000	–	–	100,000	–
July 2004	\$0.26	50,000	–	–	–	50,000
September 2003	\$0.03	200,000	–	200,000	–	–
September 2005	\$0.03	1,000,000	–	1,000,000	–	–
April 2005	\$0.10	–	700,000	–	–	700,000
July 2005	\$0.10	–	525,000	–	–	525,000
		2,200,000	1,225,000	1,200,000	950,000	1,275,000

#### iii Warrants

As part of the private placement financings in March 2002, the Company issued 3,000,000 warrants exercisable to purchase one common share for \$0.15 per share until March 7, 2003. At September 30, 2002 all the warrants were outstanding.

## Notes to the Consolidated Financial Statements

Years ended September 30, 2002 and 2001

### NOTE 5 | INCOMETAXES

The following table reconciles the expected income tax recovery at the statutory income tax rate to the amounts recognized in the consolidated statements of operations.

	<i>2002</i>	<i>2001</i>
Net loss reflected in consolidated statements of operations	<b>\$ 1,937,647</b>	\$ 1,194,110
Expected income tax recovery	<b>\$ 748,000</b>	\$ 501,000
Write down of exploration properties	<b>(664,000)</b>	(315,000)
Non-capital losses not recognized	<b>(84,000)</b>	(186,000)
Income tax recovery recognized	<b>\$ -</b>	\$ -

The following table reflects future income tax assets at September 30, 2002 and 2001.

	<i>2002</i>	<i>2001</i>
Future income tax assets		
Unclaimed non-capital losses	<b>\$ 567,000</b>	\$ 557,000
Excess of unclaimed resource pools over carrying value of exploration properties	<b>2,363,000</b>	1,905,000
Other	<b>46,000</b>	42,000
	<b>2,976,000</b>	2,504,000
Less unrecognized amount	<b>2,976,000</b>	2,504,000
	<b>\$ -</b>	\$ -

At September 30, 2002, the Company has unclaimed resource pools of \$7,202,000 and unclaimed non-capital losses carried forward of \$1,718,000. Of the non-capital losses, \$135,000 expire in fiscal 2003, \$240,000 expire in fiscal 2004 and \$296,000 expire in fiscal 2005.

### NOTE 6 | LOSS PER SHARE

Loss per share is based on a weighted average number of common shares outstanding of 20,249,708 for fiscal 2002 and 18,071,626 for fiscal 2001.

The effect of common share purchase options and warrants on the net loss in 2002 and 2001 is not reflected as to do so would be anti-dilutive.

### NOTE 7 | RELATED PARTY INFORMATION

The Company was charged \$72,717 in fiscal 2002 and \$170,784 in fiscal 2001 for consulting services charged by directors and/or officers and/or corporations controlled by them.

Accounts payable and accrued liabilities at September 30, 2002 and 2001 included amounts payable to related parties of \$32,963 and \$10,768, respectively.

### NOTE 8 | FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The Company estimates that the fair value of these financial instruments approximate the carrying values.