

*Consolidated Interim Financial Statements of*

**MINDORO RESOURCES LTD.**

*September 30, 2002*



**MINDORO RESOURCES LTD.**

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*Mindoro trades on the TSX Venture Exchange under the symbol MIO*



## **MINDORO RESOURCES LTD.**

### **Management's Discussion and Analysis**

Nine Months Ended September 30, 2002 (Unaudited)

#### **OVERVIEW**

Mindoro Resources Ltd. ("Mindoro" or "the Company") is a Canadian-based mineral exploration and development company holding interests in the Philippines. The primary corporate objective is the acquisition, exploration and, when successful, development and production of gold and gold-copper properties in Asia. There is no commercial production from any mineral property in which Mindoro has an interest. There is no established source of revenue and the Company presently operates at a loss. All operations have been funded by equity subscriptions. Revenue for the current period was derived from interest income. All project expenditures are capitalized in deferred exploration where, upon development of an operating mine, these expenses can be recovered against income from operations. If the Company chooses to discontinue exploration activities on a particular property then the to-date expenses are written off against income.

#### **OPERATING RESULTS**

Interest income for the nine months ended September 30, 2002, was \$548, down from \$3,981 for the nine months ended September 30, 2001. Net loss of \$52,561 was significantly lower than the net loss of \$119,524 for the same period in 2001. This is primarily attributable to a \$95,000 gain in the second quarter pursuant to settling an outstanding compensation liability by issuing 205,000 stock options. Foreign exchange loss was also considerably less, at \$2,155 for the period, down from \$28,879 in 2001.

General and administrative expenses increased approximately 44% in 2002. The largest increases were in Advertising and Promotion, at \$18,964 as of September 30, 2002 compared to \$4,136 in 2001, related mainly to production of the Company's annual report and other marketing and promotion activities, and Travel expenses of \$16,602 compared to \$2,025 for the same period in 2001.

During 2001, the Company decided not to continue operations on the Tiris Project in Indonesia and the associated deferred exploration was written down. In the second quarter, the Company announced it had negotiated the sale of the Tiris Project and its Malaysian and Indonesian holding companies to Asian Minerals Pty Ltd. ("Asian"). Pursuant to the terms of the Agreement, Asian reimbursed Mindoro US\$20,000 against its security deposit lodged with the Indonesian Department of Mines. Mindoro will retain a 0.5% net smelter royalty on the first 500,000 ounces of gold production, 1% on the next 500,000 ounces, and 1.5% on all subsequent production. A \$14,327 loss was recorded to Disposal of Properties during the period as a result of the sale of the Tiris Project.

#### **LIQUIDITY AND CASH RESERVES**

The Company continues to rely on the raising of capital in order to fund its ongoing operations. Two separate equity financings were carried out during the third quarter. As of September 30, 2002, Cash and Short Term Investments were \$260,551. Accounts Payable was reduced significantly as a \$95,000 compensation liability was settled. \$6,811 is owed to one director of the Company for consulting services.

In the first nine months of 2002, the net amount of \$123,397 was expended on Investing Activities, with \$120,967 spent on Exploration Activities in the Philippines. The majority of activity was on the Pan de Azucar Project, with \$94,448 in expenditures. Total amount of deferred exploration on existing properties as at September 30, 2002, is \$2,248,244.

Deposits held for private placements was reduced by \$30,000 pursuant to the issue of shares during the third quarter. \$335,836 was raised during the quarter from two separate equity issues. The first occurred on July 10, wherein the Company issued 1,500,000 units at a price of \$0.10 per unit. Each unit consisted of one common share and one non-transferable common share purchase warrant. One purchase warrant entitles the holder to purchase one additional common share during the first year for \$0.15 and during the second year for \$0.30. Net proceeds were allocated to general working capital.

The second issue took place on September 9, 2002, with the issue of 2,114,900 units at a price of \$0.11 per unit. Each unit consisted of one common share and one non-transferable common share purchase warrant. One purchase warrant entitles the holder to purchase one additional common share during the first year for \$0.15 and during the second year for \$0.30. Units were offered under the TSX Venture Exchange Short Form Offering Policy (the "Financing"). Wolverton Securities Ltd. (the "Agent") acted as agent in the offering and received commission equal to 10% of the gross proceeds of the Financing and Agent's Warrants equal to 10% of the shares issued. Agent's warrants entitle the Agent to purchase one common share from the Company at \$0.11 for two years. Net proceeds will be used for advancing Mindoro's projects in the Philippines and for general working capital.

Under the same Financing, but subsequent to the period, on October 4, 2002, the Company received additional net proceeds of approximately \$41,679 from an issue of 421,000 common shares and common share purchase warrants

## **OUTLOOK**

AurionGold Limited (formerly Delta Gold) notified Mindoro in July that it was withdrawing from the Pan de Azucar Project joint venture. AurionGold had been the target of a takeover bid since May 2002. With AurionGold's withdrawal, Mindoro reverted to its original 75% earning entitlement. Mindoro management views this as an excellent opportunity in a project that had substantial value added to it under the joint venture. 1,100 meters of drilling in late 2001 discovered a massive sulphide deposit, with associated copper, gold, silver and zinc mineralization at shallow depths on the Valderama Deposit. Mindoro commenced drilling on the Valderama Deposit at the end of September and results are expected shortly.

Recent reconnaissance work on the Lobo Project (see release dated September 16, 2002) outlined two major epithermal veins: the Sampson and Camo Veins, 0.8 km apart, each over 2 km in strike and with widths to 19 m. The Sampson Vein was mined underground on a small scale in the 1960s for copper-gold-silver. On cessation of mining, the Philippines Mines and Geoscience Bureau (1984) reported remaining reserves in the active stopes as 90,700 tonnes at a high grade of 20.5 grams per tonne (g/t) gold, or 60,000 contained ounces. No systematic, modern exploration has ever been carried out on the property.

Reconnaissance rock sampling indicates that high copper-gold-silver values occur widely distributed in veins across the property. These values appear to represent multiple, well-mineralized shoots within the vein systems. Of particular note are the high silver values recorded in a number of places. On the Sampson Vein, high values occur in outcrop, sub-crop and dump material around the old Lobo Mine where values of up to 5.1% copper, 3.36 g/t gold and 790 g/t silver were obtained (average 1 m sample width). A rock chip sample of outcrop (1 m width), 700 m along strike to the northeast, gave 1,792 g/t silver and 8.68% copper. On the Camo Vein; a channel sample over a true width of 9 m gave 1.45 g/t gold, 487.5 g/t silver and 1% copper.

The substantial dimensions of the veins, and the high values obtained from reconnaissance sampling, suggest the Lobo Project has high potential for bonanza-grade mineralization of potential economic interest. The high-sulphidation mineralization of the Sampson and Camo Veins suggest that a source porphyry copper-gold system is present beneath the Lobo vein systems (see release dated October 2, 2002).

The Archangel Project, 5 km southeast, is extensively mineralized. The drill-ready Balibago porphyry copper-gold prospect is exposed in a creek bed and is flanked and overlain by the Ahit Domes high-sulphidation copper-gold prospect to the west and the Kay Tanda gold-silver prospect to the east. The latter is the subject of a current, independent resource calculation (see news release of July 31, 2002).

**MINDORO RESOURCES LTD.**  
**Consolidated Balance Sheets**



September 30  
2002

December 31  
2001

**ASSETS**

**CURRENT**

Cash and short-term investments	\$	<b>260,551</b>	\$	177,448
Accounts receivable		<b>44,891</b>		37,127
Prepaid expenses		<b>45,614</b>		34,012
Security deposits		-		39,815

**351,056**                      288,402

**SECURITY DEPOSITS**

-                                      -

DEFERRED EXPLORATION COSTS (Note 2)                      **2,248,244**                      2,127,277

CAPITAL ASSETS (Note 3)    **21,963**                                      26,709

**\$ 2,621,264**                      \$ 2,442,388

**LIABILITIES**

**CURRENT**

Accounts payable and accrued charges (Note 4)	\$	<b>41,310</b>	\$	145,709
Deposits Held for Private Placement		-		-

**41,310**                                      145,709

**SHAREHOLDERS' EQUITY**

Share capital (Note 5)		<b>8,209,063</b>		7,873,227
Deficit		<b>(5,629,109)</b>		(5,576,548)

**2,579,954**                                      2,296,679

**\$ 2,621,264**                      \$ 2,442,388

**MINDORO RESOURCES LTD.**  
**Consolidated Statements of Loss and Deficit**



	Quarter Ended September 30		Nine Months Ended September 30	
	2002	2001	2002	2001
<b>REVENUE</b>				
Interest	\$ 43	\$ (403)	\$ 548	\$ 3,981
<b>EXPENSES</b>				
Administration	-	-	658	607
Advertising and promotion	7,102	1,279	18,964	4,136
Communications	1,095	1,087	3,472	3,262
Conferences and trade shows	-	25	2,271	25
Consulting and professional fees	2,588	(255)	4,270	4,494
Listing fees and shareholder communications	4,401	5,219	12,626	14,079
Office, postage and sundry	3,895	3,703	13,704	9,219
Printing	1,554	307	3,585	3,042
Rent	3,973	4,087	10,753	9,619
Salaries and benefits	12,093	9,801	37,545	35,640
Travel	1,525	68	16,602	2,025
	<b>38,227</b>	25,321	<b>124,451</b>	86,148
<b>LOSS BEFORE OTHER CHARGES</b>	<b>38,183</b>	25,724	<b>123,903</b>	82,167
<b>OTHER CHARGES (INCOME)</b>				
Depreciation and amortization	2,392	2,827	7,176	8,480
Foreign exchange loss	228	9,474	2,155	28,879
Loss (Gain) on disposal of properties	-	-	14,327	-
Loss (Gain) on settlement of liabilities	-	-	(95,000)	-
	<b>2,620</b>	12,301	<b>(71,342)</b>	37,359
<b>NET LOSS</b>	<b>40,804</b>	38,025	<b>52,561</b>	119,524
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>5,588,305</b>	4,462,448	<b>5,576,548</b>	4,380,948
<b>DEFICIT, END OF PERIOD</b>	<b>\$ 5,629,109</b>	\$ 4,500,472	<b>\$ 5,629,109</b>	\$ 4,500,472
<b>BASIC AND DILUTED (GAIN) LOSS PER SHARE</b>	<b>\$ 0.002</b>	\$ 0.002	<b>\$ 0.002</b>	\$ 0.006
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>22,326,527</b>	19,393,281	<b>21,991,221</b>	18,861,783

**MINDORO RESOURCES LTD.**  
**Consolidated Statements of Cash Flow**



	Quarter Ended September 30		Nine Months Ended September 30	
	2002	2001	2002	2001
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>				
<b>OPERATING</b>				
Net earnings	\$ (40,804)	\$ (38,025)	\$ (52,561)	\$ (119,525)
Items not affecting cash				
Depreciation and amortization	2,392	2,827	7,176	8,480
Write-down of exploration expenditures	-	-	-	-
Foreign exchange loss	228	9,474	2,155	28,879
Disposal of properties (gain) loss	-	-	14,327	-
Settlement of liabilities (gain) loss	-	-	(95,000)	-
	<b>(38,184)</b>	(25,724)	<b>(123,903)</b>	(82,166)
Changes in non-cash working capital	<b>(11,836)</b>	12,239	<b>(83,950)</b>	(79,268)
	<b>(50,020)</b>	(13,485)	<b>(207,853)</b>	(161,434)
<b>INVESTING</b>				
Expenditures on mineral properties, net of recoveries	<b>(33,346)</b>	(117,332)	<b>(120,967)</b>	38,232
Security deposits	-	-	-	(204,042)
Capital asset purchases	-	-	<b>(2,430)</b>	(485)
	<b>(33,346)</b>	(117,332)	<b>(123,397)</b>	(166,295)
<b>FINANCING</b>				
Deposits held for private placement	<b>(30,000)</b>	-	-	-
Issue of common shares	<b>335,836</b>	304,157	<b>335,836</b>	475,340
	<b>305,836</b>	304,157	<b>335,836</b>	475,340
<b>FOREIGN EXCHANGE LOSS</b>	<b>(228)</b>	(9,474)	<b>(2,155)</b>	(28,879)
<b>DISPOSAL OF PROPERTIES LOSS</b>	-	-	<b>(14,327)</b>	-
<b>SETTLEMENT OF LIABILITIES GAIN</b>	-	-	<b>95,000</b>	-
<b>INCREASE (DECREASE) IN CASH AND SHORT TERM INVESTMENTS</b>	<b>222,241</b>	163,867	<b>83,103</b>	118,732
<b>CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF PERIOD</b>	<b>38,310</b>	98,251	<b>177,448</b>	143,386
<b>CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD</b>	<b>\$ 260,551</b>	\$ 262,118	<b>\$ 260,551</b>	\$ 262,118

Supplemental disclosure with respect to cash flows (Note 6)

**MINDORO RESOURCES LTD.**  
**Notes to the Consolidated Interim Financial Statements**  
For the Nine Months Ended September 30, 2002



**1. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, following the same accounting policies and methods of computation as the most recent annual audited financial statements as at December 31, 2001. These interim financial statements should be read together with the Company's most recent annual audited financial statements.

*Stock-Based Compensation*

No compensation expense is recognized when stock options are issued to employees, directors and consultants of the Company. Any consideration received on exercise of stock options or purchase of stock is credited to share capital.

**2. DEFERRED EXPLORATION COSTS**

<u>Project</u>	<u>Opening</u>	<u>Expenditures</u>	<u>Write-Down</u>	<u>Closing</u>
Agata	\$ 1,001,615	\$ 12,071	\$ -	\$ 1,013,686
Tapian	441,080	4,041		445,121
Pan de Azucar	346,823	94,448		441,271
Other	337,759	10,407		348,166
	\$ 2,127,277	\$ 120,967	\$ -	\$ 2,248,244

**3. CAPITAL ASSETS**

	<u>Cost</u>	<u>Depreciation</u>	<u>Value</u>
Office furnishings	\$ 19,574	# \$ 14,127	\$ 5,447
Office equipment	9,650	7,139	2,511
Computer software	37,830	32,001	5,829
Computer hardware	44,777	36,623	8,153
Leasehold improvements	16,517	16,494	23
	\$ 128,348	\$ 106,385	\$ 21,963

**4. RELATED PARTY TRANSACTIONS**

Included in Accounts Payable is \$6,811 due to a director of the Company for consulting services provided .

**MINDORO RESOURCES LTD.**  
**Notes to the Consolidated Interim Financial Statements**  
For the Nine Months Ended September 30, 2002



**5. SHARE CAPITAL**

Authorized  
Unlimited number of common shares  
Unlimited number of preferred shares

	<u>Number</u>	<u>Amount</u>
Issued		
Common shares		
Balance, beginning of period	20,467,529	\$ 7,873,227
Issued (a)	<u>3,614,900</u>	<u>335,836</u>
Balance, end of period	<u>24,082,429</u>	<u>\$ 8,209,063</u>
Common share purchase warrants		
Balance, beginning of period (b)	2,453,436	-
Issued (a)	361,490	-
Issued agent's warrants (c)	211,490	-
Exercised	-	-
Expired	-	-
Balance, end of period	<u>3,026,416</u>	<u>-</u>

- a. On July 10, 2002, the Company issued 1,500,000 common shares and 1,500,000 common share purchase warrants for gross proceeds of \$150,000 less issue costs of \$1,151. The common share purchase warrants may be converted into common stock at \$0.15 per share prior to July 10, 2003, and at \$0.30 per share prior to July 10, 2004, at which time they expire. Common shares are subject to a hold period, which expires November 10, 2002.

On September 9, 2002, the Company issued 2,114,900 common shares and 2,114,900 common share purchase warrants for gross proceeds of \$232,639 less broker commission and issue costs of \$45,652. The common share purchase warrants may be converted into common stock at \$0.15 per share prior to September 9, 2003, and at \$0.30 per share prior to September 9, 2004, at which time they expire. 9,000 Common shares are subject to a hold period, which expires January 10, 2003. Common shares and common share purchase warrants were issued under the TSX Venture Exchange Short Form Offering Policy.

Under the same Short Form Offering Policy, the Company issued an additional 421,000 common shares and common share purchase warrants on October 4, 2002 (not included in above table), for gross proceeds of \$46,310, less broker commission of \$4,631.

- b. 1,881,163 common share purchase warrants may be converted into common stock at \$0.30 per share until January 16, 2003, at which time they expire. 572,273 common share purchase warrants may be converted into common stock at \$0.30 per share prior to August 1, 2003; \$0.50 per share prior to August 1, 2004 and \$1.00 per share prior to August 01, 2005 at which time they expire.
- c. On September 9, 2002, the Company issued 211,490 Agent's Purchase Warrants, convertible to common stock at \$0.11 per share prior to September 9, 2004, at which time they expire.

On October 4, 2002, an additional 42,100 Agent's Purchase Warrants (not included in above table) were issued which may be converted to common stock at \$0.11 per share prior to October 4, 2004.





**5. SHARE CAPITAL (continued)**

*Incentive Share Options*

	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at beginning of period	<b>1,839,000</b>	<b>\$0.32</b>
Granted	<b>840,000</b>	<b>\$0.13</b>
Forfeited	<b>(735,000)</b>	<b>\$0.51</b>
<u>Outstanding at end of period</u>	<u><b>1,944,000</b></u>	<u><b>\$0.16</b></u>
<u>Options exercisable at end of period</u>	<u><b>1,944,000</b></u>	<u><b>\$0.16</b></u>

The following table summarizes share options outstanding at September 30, 2002:

<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Remaining Contractual Life (Years)</u>	<u>Average Exercise Price</u>
\$0.10 to \$0.14	1,300,000	4.38	\$0.12
\$0.15 to \$0.23	374,000	2.73	\$0.20
\$0.24 to \$0.36	270,000	0.5	\$0.32

During the period, the following share options were issued:

<u>Optionee</u>	<u>Date Issued</u>	<u>Date Expires</u>	<u>Options Issued</u>
J.A. Climie	May 28, 2002	May 28, 2007	320,000
P. Gould	May 28, 2002	May 28, 2007	150,000
G. Kirchner	May 28, 2002	May 28, 2007	90,000
R. Morton	May 28, 2002	May 28, 2007	90,000
O. Reyes	May 28, 2002	May 28, 2007	100,000
N.R. Toreson	May 28, 2002	May 28, 2007	90,000

**6. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

- a) \$30,000 previously held on deposit for a private placement, related to shares issued in July.
- b) The Company incurred a loss on disposal of properties in connection with assignment of its interest in a project to Asian Minerals Pty Ltd, as previously announced on June 6, 2002.
- c) The Company issued 205,000 share options in May, 2002, to two of the Companies officers in satisfaction of a \$95,000 compensation debt. These share options are included in the options reported under Note 5.

**7. DIRECTORS AND OFFICERS**

Roger D. Morton, Ph.D., P.Geol.	<i>Chairman, Director</i>
James A. Climie, B.Sc.(Hons.), P.Geol.	<i>President, CEO, Director</i>
Gerhard F. Kirchner, Ph.D., P.Eng.	<i>Director</i>
Oscar S. Reyes, B.A., MBA	<i>Director</i>
N. Reid Toreson, B.Comm.	<i>Director</i>
Penny M. Gould, B.Ed.	<i>Executive Vice President, Corporate Secretary</i>