# ZARUMA RESOURCES INC.

## 2002 Annual Report

## Focus on Gold

# Corporate Profile

**Zaruma Resources Inc.** is a Canadian natural resource company engaged in the exploration and development of mineral properties with a focus on gold.

It is the Company's prime objective to achieve superior market recognition and strong growth in shareholder value by growing into a profitable gold mining company. The development of gold mining operations and cash flow from existing projects and the addition to the current mineral resource inventory through further exploration is expected to render the results needed to meet Zaruma's objective.

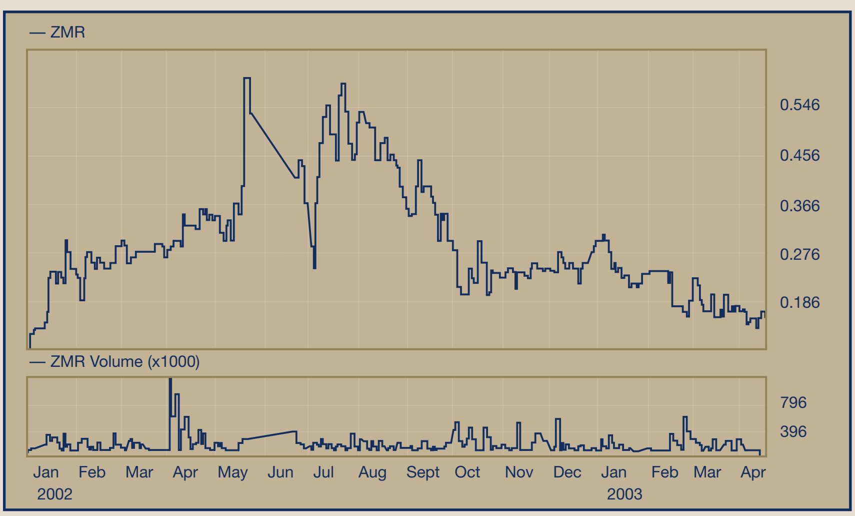
The Company is working on two 100% owned, advanced gold projects in Latin America:

- El Foco in Venezuela: gold deposits in a highly prospective greenstone belt.
- San Antonio in Mexico: gold and copper in a large mineralized porphyry-influenced setting.

The Company is progressing to become a new gold producer and in both projects is drawing on significant additional exploration potential in known, open-end deposits, in defined mineralized targets, and along large untested anomalies.

Zaruma has an experienced team of officers and project managers with a proven track record in the mineral resource business, complemented by a Board of Directors consisting of international business professionals of high standing.

The common shares of Zaruma are listed on The Toronto Stock Exchange, symbol: ZMR and also trade on the Frankfurt and Berlin stock exchanges in Germany.



Toronto Stock Exchange

# Contents

# 2002 HIGHLIGHTS

## Project Development

- **El Foco (Venezuela):** Comprehensive target modeling and re-evaluation of exploration data by an independent qualified person indicates exploration potential in the range of up to one million ounces contained gold in saprolite ores. Ongoing positive metallurgical testing and open pit planning on the Alcaravan gold deposit.
- **San Antonio (Mexico):** Ongoing comprehensive evaluation of exploration data by an independent qualified person points to very significant upside potential and scope for fast tracking a start-up gold mining operation. Commencement of metallurgical testing and preliminary mine planning.

## Financing

- Private placement of 8,000,000 units for gross proceeds of $ 1.27 million.
- Private placement of 3,000,000 units for gross proceeds of $ 0.44 million (closed January 2003).
- Corporate restructuring in Mexico resulted in a net gain of $ 1.1 million.

## Corporate Development

- Cooperation with Honnold Corp., a member of the Cisneros Group of Companies in Venezuela, regarding certain joint exploration and development activities over a zone of interest covering parts of El Foco and neighbouring portions of Honnold's wholly owned Chicanan East Gold Project.

## Corporate Events

- Simplification of corporate and administrative structure, concentration of key corporate functions at Toronto head office, new Chief Financial Officer.

# President's Message

## Dear Fellow Shareholders

Significant progress was made in 2002 in advancing your Company toward reaching the goal of becoming a gold producer. Your Company is financially stronger, shows a considerably improved balance sheet and draws on a smaller, yet strengthened management team. Most important is that ongoing specific project activities, which commenced in 2002, are rendering highly encouraging results. These factors put us in an excellent position to face the challenge of building a producing gold mining company.

We are concentrating our efforts on our 100% owned, well advanced gold projects: the El Foco project in Venezuela and the San Antonio project in Mexico, which also contains the Luz del Cobre copper deposit.

Both our projects have the potential to be the site of Zaruma's first gold mining operations, with El Foco at the moment further advanced than San Antonio. Both projects have a very significant gold exploration upside potential; San Antonio could reach multi-million ounce proportions by virtue of its setting in a porphyry-influenced, highly prospective geological environment.

At the El Foco Project in Venezuela, we are focusing our efforts on the saprolitic layer that is near to the surface. These oxidized gold resources formed on top of primary, mainly shear-zone hosted local gold mineralization. Current results from focusing on the top 60 metres of weathered rock, in contrast to the deep drilling approach by previous operators in the region, support our development concept of low cost open pit mining from a number of nearby pits, supplying oxide ore to one or more centralized heap leach facilities.

At El Foco, the Alcaravan gold deposit is shaping up as a model deposit for the region, and as an excellent first mining target. Based on our previous infill drilling of the saprolite, a Measured Mineral Resource of 1 million tonnes of ore with an average gold grade of 2.0 g/t was block modeled, to contain 71,000 ounces of gold. This resource lies in the upper part of an Indicated Mineral Resource of 3.7 million tonnes at 1.4 g/t containing 160,000 ounces of gold. Metallurgical tests and preliminary pit optimization studies indicate a highly promising, although small, saprolite ore body. Column leach tests with agglomerated material from Alcaravan, showed very good leach recoveries of gold averaging over 90%.



A comprehensive re-evaluation of the very large data inventory showed that in the vicinity of Alcaravan there are at least 8 more excellent targets with gold mineralization comparable to our model deposit, Alcaravan. The preliminary conclusion is that there is a significant resource potential for an additional 8 million to 10 million tons of saprolite ore in the 1.8 to +2.5 g/t grade range, estimated to possibly contain up to an aggregate 1 million ounces of gold.

Current and proposed work at El Foco encompasses (i) the conclusion of the metallurgical testing of Alcaravan material, (ii) further infill drilling to add reserves in at least one of the close-by mineralized target zones, and (iii) the initiation of a feasibility study for a start-up open pit mine heap leach operation. It is our goal to have an economically meaningful gold producing presence at El Foco as soon as possible, and then increase the mineable oxide ore reserves to support an increased production level.

Regarding our joint efforts with the owner of the neighboring Chicanan East concession, we are jointly reviewing certain potential exploration and development efforts in a zone of interest over the two properties with Honnold Corporation, a member of the Cisneros Group of Companies. Based on the results of current studies being done by both parties, the formal nature of the currently unincorporated cooperation agreement shall be decided upon in the not too distant future.

The San Antonio project in Mexico has a very significant potential, far beyond the currently known resources. This is manifested by a porphyry-style intrusive influence into a series of highly fractured sediments and volcanic rocks. Very sizeable gold and other geochemical anomalies, coincident geophysical and structural vectors and last, but not least, open-ended, drill indicated resources summing up to at least 500,000 ounces of gold in various deposits, are key field indicators of the potential of the project.

The geology at San Antonio is highly prospective, but at the same time challengingly complex. For a focused further exploration and development approach to San Antonio, a detailed and comprehensive re-assessment and recompilation, in a unified data base, of the very large amount of data became mandatory in order to avoid getting “lost” in the dispersed information and data collected by previous operators with apparently diverse objectives.

This assessment is in progress and is serving not only as the planning base for detailed follow-up work at San Antonio planned for the second quarter of 2003, but is revealing a better model of the targets, as well as showing additional vectors pointing to prospective exploration targets. Current scoping work is looking at opening up shallow higher grade gold deposits on the Golfo de Oro zone using low cost, underground bulk mining techniques, and exploiting open pittable oxide resources in the California zone. The necessary metallurgical testing to determine recovery methods has commenced.

To simplify the corporate structure, we decided to centralize key corporate functions at our head office in Toronto. I am pleased to report that Frank van de Water, a chartered accountant and experienced business executive with more than 25 years of international corporate experience in financial management, corporate development and debt and equity financing, largely with listed, international mining and resource companies, has joined us as Chief Financial Officer. We concluded that the position of a Chief Operating Officer is premature, and we decentralized project management to our highly experienced project managers.

I am also pleased to report that we concluded two private placements, one for 8,000,000 units of shares and warrants for gross proceeds of $ 1.27 million and a second one, which closed in January 2003, of 3,000,000 units for gross proceeds of $ 0.44 million. We also concluded a corporate restructuring in Mexico, with the sale of carried forward tax losses adding $ 1.1 million to our working capital. The Company’s shares traded actively on The Toronto Stock Exchange and on the Frankfurt stock exchange, demonstrating a high degree of liquidity.



To some extent, 2002 was a year of transition and optimization after the merger between Zaruma Mining Corporation ASA (Norway), and Laminco Resources Inc. (Canada) and the subsequent listing of your Company on the Toronto Stock Exchange in late 2000. We have implemented positive and visible changes and are continuing to add to the fundamentals of the Company.

We are today in a good financial position, and should soon see results from the very significant expenditure on exploration in prior years, and our current project activities. The year 2003 should advance your Company toward meeting its prime objective, to achieve superior market recognition and strong growth in shareholder value by the development of gold mining operations, and by adding to the current mineral resource inventory through further exploration.

I would like to thank my colleagues and our key project people for their contributions to the growth of Zaruma. I am pleased to be working with a team of highly motivated professionals and a Board of Directors of accomplished, international professionals of high standing. My appreciation also goes out to the many supporting shareholders of the Company.

Thomas F. Utter
President and Chief Executive Office
April 21, 2003

# OVERVIEW

## Projects and Ownership

| Gold | | | Copper | | |
|---|---|---|---|---|---|
| • El Foco | Venezuela | 100% | • Luz del Cobre** | Mexico | 100% |
| • San Antonio | Mexico | 100% | | | |
| • Romina | Venezuela | 100% | | | |
| • Guaysimi Alto* | Ecuador | 4% | | | |

* Indirect interest
** Part of the San Antonio concession (Mexico)

Zaruma is concentrating its current project activities on the El Foco project in Venezuela and on the San Antonio gold project in Mexico.

The projects are held through subsidiary companies.

## Mission and Goals

The mission of the Company and the commitment of management to its shareholders is to achieve superior market recognition and strong growth in shareholder value by growing into a profitable gold mining company.

Key to accomplishing this mission and sustainable growth, is the development of gold mining operations with cash flow from existing projects, and the addion to the current mineral resource inventory through further exploration.



## Current Position

Management reviews from time to time the position and status of the Company, which is apt to change according to progress made, and due to changes in the general and mining business climate. These reviews assist in designing appropriate strategies to meet the goals and to accomplish the mission of the Company. Presently, the position of the Company can be summarized as follows:

### Strengths

- Focused on two advanced gold projects in countries favourable to mining
- Considerable upside potential in both projects:

  San Antonio (Mexico) could reach multi-million ounce proportions in a large mineralized, porphyry-influenced environment, in underground as well as in open pit settings.

  El Foco (Venezuela): saprolitic gold ores in a prospective greenstone belt could potentially contain up to a million ounces in low cost, open pit, heap leach settings.
- Projects have a good chance of becoming gold mines:

  Alcaravan’s saprolite gold deposit is shaping up as a possible site to commence an open pit, heap leach operation; the focus on saprolitic gold deposits at El Foco appears to be the right approach.

  San Antonio could see low cost, underground bulk mining, plus open pit heap leach operations starting with oxides and mixed oxide/sulphide ores.
- Dedicated and experienced corporate and project management specifically qualified to operate in Latin America.
- Strong shareholder support, specifically in Europe

## Areas requiring additional information or further improvements

- El Foco: further additions to the inventory of measured saprolitic resources.
- San Antonio: metallurgical testing of different ore types.
- San Antonio: conclusion of an overall and unified data assessment and target modeling to define the optimal exploration and development approach.
- Conclusion of required engineering studies to prove that the gold can be mined at a profit.
- Completion of the simplification of the corporate structure.
- Recognition as a junior company which stands a good chance of becoming a gold producer, with considerable upside potential.

## Opportunities

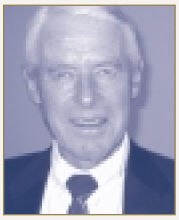
- To become a new gold producer, with considerable upside potential.
- To attract other parties to consolidate additional saprolite resources around El Foco and in Venezuela in general, and to seek farm-in partners, specifically larger gold companies, to develop the huge potential of San Antonio in Mexico.

## Imponderables

- Gold price: the Company has as a target, to produce gold at cash costs in the lower third of gold producers.
- Market perceptions, political risks, permitting and risks typical for the exploration and mining industry, are factors beyond the Company's control, but are considered to be manageable.
- The Company currently has no cash flow and will require additional financing. The Company has consistently demonstrated its ability to raise funds.

# THE ZARUMA TEAM

## Directors and Executive Officers



### Kaspar K.Kielland

**Chairman of the Board - Independent Director (Norwegian)**

M.Sc. Business Admin, 40 years executive experience with emphasis on metals, minerals, smelting and refining, formerly CEO of Elkem, Chairman of Kvaerner, Kenor, Ericsson Norge, former director: Awilco, Royal Caribbean Cruise Lines. Director of the Company since October 2000.

### Prof. Dr. Thomas F. Utter

**President & Chief Executive Officer (German)**

Geologist (Dipl. Geol., Dr. Phil. Nat.), 28 years experience in the mining industry, Professor in Economic Geology at Darmstadt University (Germany), formerly with LionOre Mining Interntl., Pancontinental Mining Sydney Terraconsult AG, Chamber of Mines South Africa-Mining Technology Research. Appointed Director of the Company, October 2000. Former Managing Director/Vice Chairman of Zaruma Mining Corporation ASA.

### Frank van de Water

**Chief Financial Officer and Secretary (Canadian)**

C.A., B.Comm., more than 30 years experience in international financial management, formerly the CFO of SouthernEra, CAE Inc, Pamour Inc, Giant Yellowknife Mines Ltd., Controller of Patino, N.V., Polysar Chemical & Energy Corp., Finance Director, Amalgamated Metal Corp., British Metal Corp.



### Theodore C. Mayers

**Independent Director (Canadian)**

C.A., more than 20 years experience in corporate accounting, financial management and administration, CFO Lion Ore International Mining, formerly with Union Carbide Canada, Price Waterhouse. Appointed Director of the Company in October 2000, formerly Director of Zaruma Mining Corporation ASA.

### Prof. Dr. Peter Lorange

**Independent Director (Norwegian)**

President of IMD - International Institute for Management Development (Lausanne, Switzerland), Nestle Professor, Doctor in Business Administration (Harvard), more than 30 years experience in management development, business consulting and global strategic planning. Appointed Director of the Company in March 2001.

### Edwin G. Morrow

**Independent Director (USA)**

Geologist (B.Sc., P.Geol.): more than 28 years experience in exploration, mining and mine operations. Previous Chairman, President and CEO of Laminco Resources Inc. formerly with Homestake Mining Corp., Asamera Minerals. Appointed Director of the Company, October 2000.

# Associated Key Personnel

**Dr. Alfredo Bernasconi** **Project Manager Venezuela (Argentinian)**

Geologist (Ph.D. B.Sc), more than 30 years exploration and evaluation (South America, South and West Africa, Europe, Australia) and project management experience, mainly with major mining companies such as JCI, BP Minerals, Placer Dome, in the latter case in charge of exploration of the Las Cristinas deposit.

**James E. Poulter** **Exploration Manager San Antonio Project (USA)**

Geologist (B.Sc.), 30 years experience in mineral exploration and evaluation (USA, Latin America), previously with Laminco Resources Inc., Rayrock Mines Inc., Superior Oil-Minerals Divison.

**Alfredo Barraza** **Project Manager Mexico (Mexican)**

Chemical Engineer/Metallurgist (B.Sc.) 20 years experience in project management and process engineering with companies such as Laminco Resources Inc., Cananea Copper Mines, Grupo Mexico and others.

**Douglas F.S. Coate** **Legal Counsel (Canadian)**

LLB, BA, Member of Law Society of Upper Canada, Director and Secretary of Union Carbide Canada, Alberta Glycol, LionOre Mining International, 45 years experience in law, business and on corporate boards.

## Qualified persons of the Company providing technical expertise

In accordance with The Toronto Stock Exchange guidelines for reporting mining companies, the following persons of the Company are considered qualified technical experts (experienced geologist, mining engineers, geoscientists and similar):

Kaspar K. Kielland (mining and smelting operations), Prof. Dr. Thomas Utter (Geologist, expertise in exploration and operations), Edwin G. Morrow (Geologist, expertise in exploration and operation), James Poulter (Geologist, expertise in exploration), Alfredo Barraza (Engineer, expertise in operations and metallurgy), Dr. Alfredo Bernasconi (Geologist, expertise in exploration).

## Independent Qualified Persons or Consultants who in 2002 provided, and are currently providing, services to the Company

**Prof. Dr. Richard Viljoen (Johannesburg, South Africa)**

- Exploration data re-evaluation and assessments
- Resource target modeling, follow-up planning

**Kappes, Cassiday & Associates (Reno, Nevada, USA)**

- Metallurgical testing

**D. Limpitlaw - Bastillion Consulting (Johannesburg, South Africa)**

- Pit optimization studies, geostatistics, block modelling.

*Prof. R. Viljoen, J. Poulter, Dr. A. Bernasconi*

# Review Of Projects And Operations

## El Foco (Venezuela)


- 19,000 hectare concession for non-alluvial and alluvial gold and diamonds in SE Venezuela in a highly prospective greenstone belt.
- Reasonable infrastructure: access by 25 km dirt track road from the Gran Sabana Highway at km 33 station to the west, ample camp and field office facilities.
- Identified gold mineralization, measured and indicated gold ore resources and significant additional exploration potential in known, open-end deposits, in defined mineralized targets, and along large untested anomalies.
- Alcaravan deposit: 1 million tons saprolite Measured Mineral Resource at 2.0 g/t average grade within an Indicated Mineral Resources of 3.7 million tons at 1.4 g/t to contain 160,000 ounces.
- Column leach tests with agglomerated saprolite material from Alcaravan show very good leach recoveries averaging over 90%.
- Current pit optimization studies show a potential 0.58 million mineable tonnes of saprolite ore at an average grade of 2.94 g/t, and an average stripping ratio of 1:1.16. If material outside the Measured Mineral Resource, currently part of the Indicated Mineral Resource, is included in the mine plan, 1 million tonnes of ore with a mined grade of 2.9 g/t are estimated to yield 90,000 ounces of gold.
- At least 8 more comparable saprolite targets, an excellent resource potential in the 1.8 to +2.5 g/t grade range, estimated to possibly reach 1 million ounces of contained gold.



## El Foco/Chicanan East Joint Venture

- Cost sharing JV with a company in the Cisneros Group, which holds the neighbouring Chicanan East block, potentially leading to consolidation of an important corridor of gold mineralization in the district.
- Addition of considerable resource potential, including approximately 100,000 ounces of drill indicated oxide resources from Serucha West in 2003.

*El Foco Camp Facilities*

## Results of Geological Reassessment

El Foco is located in the State of Bolivar in Southeastern Venezuela approximately 30 kilometres to the south of the town of El Dorado. The district has been subject to alluvial and eluvial gold production commencing about 1890 and continuing at varying levels of intensity, with cumulative historic gold production estimated to be close to 1 million ounces.

Zaruma's 2002 comprehensive geological reassessment revealed a new and far advanced understanding on the geology of the property. Most of the El Foco property appears to be underlain by a layered mafic/ultramafic complex which is considered a sheared off segment of the larger Mochila Layered

Complex to the West. The Mochila Complex is a Precambrian intrusive body in which not only gold mineralization but also typical platinum-enriched layers have been found. The layered complex at El Foco intruded basaltic to andesitic rocks of the Carichapo Group, a greenstone sequence within the Pastora Supergroup of Lower Precambrian age. Due to intensive weathering, these rocks surficially have been transformed into soft, oxidized clay and iron-rich materials referred to as saprolite and laterite. Similar rocks in southeastern Venezuela and the adjacent Guyanas contain several hundred gold prospects and several major productive gold districts.

The primary, non-oxidized, bedrock gold mineralization in the El Foco district is hosted by structures and alteration zones within volcanics and the layered igneous complex. Mineralization occurs in a strong NW-SE structural corridor and is related to well defined shear zones and intersections of structural lineaments.

The Alcaravan gold deposit at El Foco has the typical features of a shear-zone hosted Archean gold lode and is intimately associated with a quartz-sericite-pyrite alteration, which in the first 60 metres below surface weathered zone is oxidized into a typically kaolin-rich, gold-bearing saprolite.

## Progress, Resources, Potential and Outlook

Considerable progress was made in 2002 in assessing the resources and the potential of the property, incorporating an extensive database collected over the past 10 years with current results. Zaruma's focus is on the top 60 metres of weathered rock, in contrast to the deep drilling approach by previous operators in the region and this has rendered results which support our development concept of low cost open pit mining from a number of nearby pits supplying oxide ore to one or more centralized heap leach facilities.

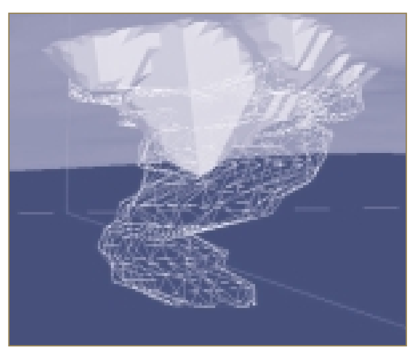
The Alcaravan deposit is shaping up as an excellent model deposit. A Measured Mineral Resource of 1 million tons of oxide ore at 2.0 g/t within an Indicated Mineral Resources of 3.7 million tons at 1.4 g/t to contain 160,000 ounces of gold was calculated by independent and qualified consultant D. Limpitlaw - Bastillion Ltd., South Africa, for Alcaravan. An ongoing pit optimization study showed 0.58 million tones of ore to be potentially mined with an average grade of 2.94 g/t with an average stripping ratio of 1:1.16. If material outside the Measured Mineral Resource, currently classified as part of the Indicated Mineral Resource, is included in the mine plan, 1 million tonnes of ore with a mined grade of 2.9 g/t to yield 90,000 ounces result.



Metallurgical sampling of the Alcaravan deposit in 2002 and subsequent metallurgical column heap leach tests (Kappes, Cassiday & Assoc., Reno) showed high gold recovery rates averaging over 90%.

Good correlation between soil geochemical gold anomalies, radiometrics, geophysics, structural geology and previous auger and diamond exploration drilling has defined at least 8 additional mineralized targets at El Foco plus at least the same number of targets in neighbouring Chicanan East. The independent geological assessment by Prof. Richard Viljoen, (former Chief Geologist of Gold Fields of South Africa), concluded that there is an excellent resource potential for saprolitic gold deposits in the 1.8 to +2.5 g/t grade range, estimated to possibly reach 1 million ounces of contained gold in the aggregate.

Based on the encouraging 2002 results, the Company has the objective of becoming a significant gold producer in Venezuela looking at the possibility of a low cost heap leach operation. Continuing to get close to this objective, the initial 2003 program for El Foco is to (i) conclude metallurgical testing, (ii) complete infill drilling in one or more of the existing targets to add to the existing measured and indicated mineral resources, (iii) initiate a scoping and prefeasibility study to assess the ore reserves and the economic viability of going into production.



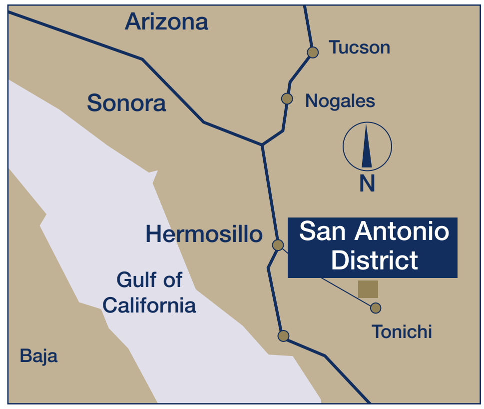
*Alcaravan Open Pit and Wire Frame Outline of Resource Body (view up from subsurface to NE)*

*50 metres* |-----------------|

# REVIEW OF PROJECTS AND OPERATIONS

## San Antonio (Mexico)

- 11,000 hectare mineral concession in a historic mining district in the Western Sierra del Madre (130 km east of Hermosillo, Sonora)
- Good infrastructure: ample camp and on site office facilities, road access, power, water, labor supply.
- Evidence of a very large and intense gold and base metals mineralized system related to porphyry-type events.
- Gold: drill indicated mineral resources of more than 500,000 ounces gold: (i) Golfo de Oro zone: 2.8 million tons at 3.5 g/t, (ii) California zone: 1.5 million tons at 2.6 g/t, (iii) Cerro Sapuchi zone:1.4 million tons at 2.0 g/t; all ore bodies open ended, pointing to a significant additional resource potential in open pit and underground settings.




- Very large, untested soil anomalies of +0.5 g/t gold values: significant additional exploration potential in defined mineralized targets and along large untested anomalies.
- Luz del Cobre Copper Deposit: 10.5 million tons at 0.76% copper, previous prefeasibility indicates attractive economics of open pit, leach, SX/EW operations at copper prices over $0.85/lb.



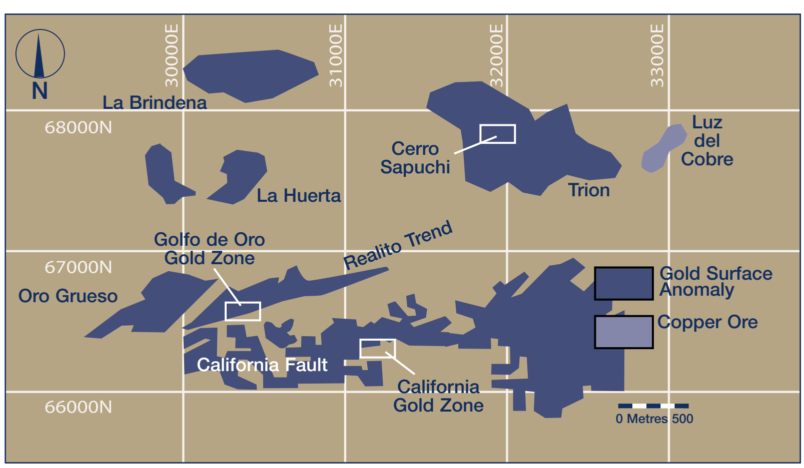
## Geology and Potential

San Antonio has a history of mining and on a regional scale lies at the western flank of the Sierra Madre in an East to West oriented belt of mineralization, (the “Sonora Gold Belt”), about midway between the La Colorado gold mine and the Mulatos gold deposit to the east.

Geologically the property is characterized by a complex and highly faulted series of sedimentary clastic rocks of Ordovizian and Triassic age, intrusions of dioritic to andesitic igneous rocks of Cretaceous age and the significant formation of large post-igneous breccia bodies.

Widespread gold mineralization appears to postdate the igneous intrusions. They show signs pointing to a structurally controlled, hydrothermal origin. The copper deposit of Luz del Cobre has the features of a typical supergene leached and subsequently enriched near surface blanket deposit.

Geophysical and geological evidence, the notable gold and base metals anomalies as well as alteration zones suggest that the ultimate origin of the metal mineralization is related to an underlying porphyry system that was the driving force behind the mineralization in this district.



On the property, a 15-kilometre major structural trend has been recognized to contain a series of significant gold and copper occurrences in several areas along the strike length of the trend. More than 250 drill holes (diamond and reverse circulation holes) have been put down on the property, in addition to mapping, geochemical sampling and extensive geophysical surveys.

The known gold deposits at San Antonio have the scope for fast tracking start-up gold production but more than anything, the property has a very significant upside gold potential by virtue of its geological, geochemical and geophysical features.

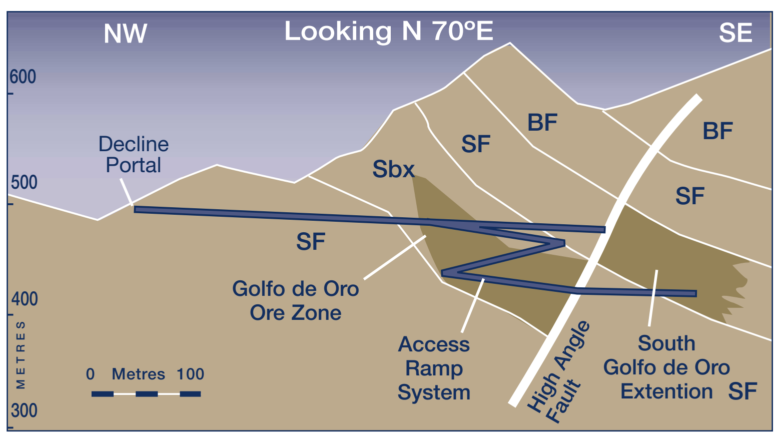
## Progress and Outlook

The geology at San Antonio is highly prospective and at the same time challengingly complex. In 2002, the Company concluded that a detailed reassessment of the large amount of data should add value by a more detailed modeling of key targets and a focused planning of the next steps. This reassessment is being assisted by an independent geological consultant, Prof. Richard Viljoen.

Parallel to this, it was considered a top priority to undertake metallurgical testing on ores from key deposits in order to obtain a better understanding on the recovery parameters and treatment process of the different gold ore types.

Preparatory work for the geological reassessment and a metallurgical sampling program and subsequent testing commenced in 2002 and into 2003. Results are expected to become available during the second quarter of 2003. Subject to these results, Zaruma is looking at the following conceptual development approach for San Antonio:

(i) Expansion of resource inventory and adding information for further support of the huge potential by drilling at targets with ore grade drill intercepts in continuation of currently known ore bodies (Realito-Golfo de Oro) as well as on very large open pit targets such as the Mina Grande/Serro Sapuchi/Trion sector and at other currently redefined targets.

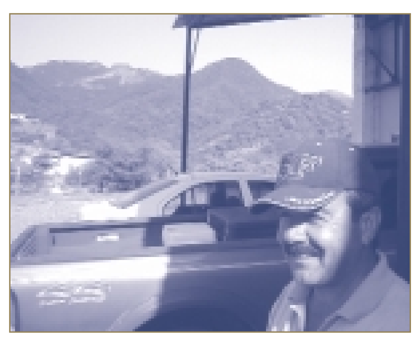



(ii) Scoping studies of low cost underground bulk mining of high grade sections in the Golfo de Oro zone, preceded by pilot stage heap leach operation on oxide and mixed sulphide ores from the California zone.

## Luz del Cobre

The Luz del Cobre copper deposit is located in the northeastern sector of the San Antonio property. It is a breccia-hosted leachable, open pit copper resource which has been delineated by previous operators over the past decade by surface drilling and underground exploration adits.

As Zaruma is focused on the development of gold deposits and due to low copper prices, the Company has not been actively working on Luz del Cobre, but has kept the permits on the property in good standing.



*Alfredo Barraza, San Antonio Camp*

# Other Interests

In Venezuela, Zaruma owns the 1,700 hectare Romina concession located in the northern sector of the km88 Gold District. In Ecuador, the Company has a minor indirect interest in the small Guaysimi Alto gold mine located south of Nambija in southern Ecuador. In 2002, Zaruma did not pursue any operational activities in either project.

For 2003, it is the Company's intention to divest the small interest in Guaysimi Alto in order to concentrate its activities on its key wholly-owned projects.

Regarding Romina, the Company has plans to conduct a review in 2003, whether to continue to carry the project and to determine the best approach for further work. Previous operators had reported the finding of geochemical gold anomalies and of promising gold mineralization, including a trenched quartz shear zone with 5 g/t gold over a width of 7.5 metres in the southern portion of the concession.

## Other Operational Events

In 2002, efforts were successfully undertaken to reorganize and simplify Zaruma's organization. To simplify the corporate structure, key corporate functions were concentrated at the head office in Toronto and the administration of operations was streamlined. A reduction in the number of personnel and consultants was implemented.

In the last quarter of 2002, the Company completed a transaction which involved the reorganization of the capital stock, assets, liabilities and accumulated losses available for income tax purposes of the Company's subsidiary in Mexico into two companies, with the subsequent sale of the shares of the newly created subsidiary. The Company retained its 100% interest in the San Antonio mining properties, but only a minor portion of the losses carried forward. The proceeds of $1.3 million were placed in escrow until the completion of a mandatory 45 day waiting period, with the funds released from escrow in 2003. The net gain on the transaction was $1.1 million.

# Management's Discussion & Analysis of Financial Condition And Results Of Operations

## Overview

Zaruma Resources Inc. is a natural resource company engaged in the acquisition, exploration and development of mineral properties, with a focus on precious metals. The Company has two properties in the advanced exploration stage, but has no producing operations.

The Company, in its present form, originated in October 2000 with the merger of the predecessor company, Laminco Resources Inc., with Zaruma Mining Corporation ASA, Norway. Trading on The Toronto Stock Exchange began on November 1, 2000 and in 2001 the common shares were listed in Germany on the over the counter market ("Freiverkehr") of the Frankfurt and Berlin stock exchanges.

## Discussion of Operations

The mineral properties, El Foco in Venezuela and San Antonio in Mexico, represent the main assets of the Company. On both properties gold mineral resources have been found, with San Antonio also containing a low grade copper deposit. The properties were previously owned by two international mining companies, and in aggregate approximately $25 million was spent on the properties prior to acquisition. All the exploration data and reports on the geology and metallurgical testing completed at that time were acquired with the properties. A significant number of deep holes were drilled by the previous owners on both properties, many intersecting gold bearing oxidized material close to surface and gold bearing sulphides at lower levels. The Company's strategy is to prove up sufficient economically mineable resources to commence production on a smaller scale than envisaged by the previous owners.

During 2002, a comprehensive reassessment and remodeling of resource targets at El Foco was completed. The first of nine major targets, the Alcaravan deposit, was bulk sampled for metallurgical testing. Laboratory tests on the agglomerated oxidized material, completed after the year-end, indicate gold recovery rates of over 90% using an acid leaching process. An independent consultant's report has indicated that the other targets bear very similar geological characteristics to Alcaravan.



At San Antonio, it was concluded that a detailed reassessment of the existing data was required in order to consider four distinct deposits discovered by the previous owner. Rather than consider the deposits as one potential mine, the strategy is to consider the deposits as separate projects. Preparatory work for this assessment commenced in 2002, with bulk samples submitted for metallurgical testing in 2003.

During the year, the camps and infrastructure at both sites were maintained and kept in operational order.

In 2003, the initial program at El Foco is to complete infill drilling on one or more of the existing targets in order to add to the existing measured mineral resources at Alcaravan. As this work progresses, a scoping study will be started to assess the economic viability of going into production. At San Antonio, the current metallurgical testing of the different types of gold bearing mineralization will help determine the next appropriate development steps.

## Financial Results of Operations

As the Company has no operating revenue, all costs were funded through the sale of common shares and, in 2002, through the sale of certain non-essential assets and tax losses in Mexico.

As set out in the notes to the financial statements, the Company realized a net gain of $1.1 million in 2002 through the restructuring of the Mexican subsidiary company, and the subsequent sale of a newly created subsidiary which had acquired non-essential assets and the unused accumulated losses for tax purposes in Mexico. This gain offset the direct operating costs and amounts spent on the exploration projects for the year.

# Management's Discussion & Analysis of Financial Condition And Results Of Operations

Direct costs related to operations were $729,000 in 2002, down from $970,000 in 2001 and $1,889,000 in 2000. At the time of amalgamation in 2000, the Company had an international organization structure that was very expensive to maintain, with staff in Norway, Germany, the U.S.A. and Canada, as well as contract workers maintaining the sites in Venezuela and Mexico. There were also significant amalgamation costs and the initial costs pertaining to the TSX listing. Steps were started in 2001 to reduce the operating costs, and these were continued in 2002. The organization has been simplified, with staff reductions implemented in order to minimize administrative costs. Further cost reductions are expected to be realized in 2003.

Costs expended on mineral properties, excluding administrative and supervision expenses, were $466,000 in 2002 and $493,000 in 2001. Depending on the outcome of metallurgical testing currently in progress, and the results of further work planned on the properties, the amount spent on the projects in 2003 could be significantly higher, as they progress to the scoping and pre-feasibility study stages.

Foreign exchange gains and losses have resulted from having assets and liabilities denominated in currencies other than the US dollar. Debts denominated in Norwegian kroner have now been repaid, and monetary assets are currently kept in US dollars, with the exception of funds for Canadian working capital needs, which are maintained in Canadian dollars.

## Financial Condition and Liquidity

The Company has no income from operations, and is therefore dependent on raising finance from outside sources. In 2002, the Company, through a public offering of 8 million units comprising common shares and warrants in Germany, Switzerland and to a lesser extent, Canada, raised a net amount of $1,180,000. In January, 2003, an additional 3 million units were sold, raising an additional net amount of $385,000. The Company continues to demonstrate its ability to raise financing for the current projects.



Cash on hand and in escrow at December 31, 2002 totaled $1.5 million. The Company has sufficient funds to cover current liabilities and the first stages of the exploration programs planned for the projects in 2003, but it will require additional financing in order to advance to the pre-feasibility study stage, estimated to be in late 2003.

## Critical Accounting Policies

The Company follows the recommendations of CICA Accounting Guideline 11, "Enterprises in the Development Stage", under which exploration expenditures related to mineral properties are expensed in the period incurred, unless it is probable that these costs will be recovered from future operations. Property acquisition costs are deferred until it is determined that these costs will not be recovered from future operations, at which point these costs are written off.

Effective January 1, 2002, the Company adopted the requirements of CICA Handbook Section 3870, " Stock- based Compensation and other Stock-based Payments". As permitted under the new Handbook section, the Company has chosen not to recognize the compensation expense calculated using the Black-Scholes option pricing model.

The Company has disclosed, on a pro-forma basis, the fair value impact of issuing stock options to the employees and directors, using the Black-Scholes model and expected price volatility rates based on the historical volatility rates since the Company's shares began trading on November 1, 2000.

## Risks and Uncertainties

The Company's future viability and subsequent profitability is dependent on the successful definition of recoverable, economic resources and the establishment of positive comprehensive feasibility studies leading to production decisions. After completion of positive feasibility studies, the Company's success is dependent on maintaining the title and beneficial interest in the properties, obtaining the necessary governmental approvals and the successful financing, construction and operation of a facility to profitably extract the contained precious metals.

There is no assurance that additional funding will be available to allow the Company to complete its proposed work on its properties. Failure to obtain additional financing could result in delay, or indefinite postponement of further exploration and development work.

The economic feasibility of the current projects will be dependent on the price of gold, which is beyond the Company's control, and which is sensitive to general economic trends in major markets of the world, and to the value of the US dollar relative to other currencies.

The Company's project in Venezuela may be perceived to be in a country where there is political and economic instability, which might affect the viability of future operations. To date, the Company has received full governmental support for its exploration activities. The recent devaluation of the Venezuelan currency has little effect on the project, with expenses incurred locally becoming cheaper when translated into US dollars.

The Company is managed by two key people, the loss of whom would have a direct effect on the short-term viability of operations.

## Report of Management



The accompanying consolidated financial statements and all the data included in this annual report are the responsibility of management. These statements have been prepared in accordance with generally accepted accounting principles in Canada and reflect management's best estimates and judgments based on currently available information. Management has developed and maintains systems of internal accounting controls in order to assure, on a reasonable and cost-effective basis, the reliability of its financial information and the safeguarding of assets from loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of three outside directors which meets with management and auditors during the year, to review reporting and control issues and to satisfy itself that each party is properly discharging its responsibilities. The Committee reviews the financial statements before they are presented to the Board of Directors for approval, and considers the independence of the auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, an independent firm of chartered accountants appointed by the shareholders at the Company's last annual meeting. Their report outlines the scope of their examination on the consolidated financial statements.

Frank van de Water
Chief Financial Officer
April 21, 2003

# AUDITORS' REPORT

## To the Shareholders of Zaruma Resources Inc.

We have audited the consolidated balance sheets of Zaruma Resources Inc. as at December 31, 2002 and 2001 and the consolidated statements of loss 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 December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Vancouver, Canada
April 12, 2003

# Consolidated Balance Sheets

(see note 1)

| As at December 31<br>(In United States dollars) | 2002 | 2001 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | $ 200,337 | $ 130,653 |
| Cash held in escrow (note 3) | 1,319,971 | - |
| Accounts receivable | 34,762 | 60,912 |
| Subscriptions receivable | - | 61,951 |
| | 1,555,070 | 253,516 |
| **Mineral properties** (note 4) | 4,838,742 | 4,838,742 |
| | $ 6,393,812 | $ 5,092,258 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable | $ 659,170 | $ 758,525 |
| Promissory note (note 4a) | 125,000 | 125,000 |
| Due to officers (note 6) | 80,350 | 172,627 |
| | 864,520 | 1,056,152 |
| **Capital subscriptions received** (note 5a) | 294,017 | - |
| | 1,158,537 | 1,056,152 |
| **Shareholders' equity** | | |
| **Share capital** (note 5) | | |
| Authorized unlimited number of Class A and B preference shares, no par value and unlimited number of common shares, no par value, of which 36,735,965 are issued and outstanding (2001 - 27,125,965) | 14,445,470 | 13,175,363 |
| **Deficit** | (9,210,195) | (9,139,257) |
| | 5,235,275 | 4,036,106 |
| | $ 6,393,812 | $ 5,092,258 |

*See notes to consolidated financial statements*

On behalf of the Directors

Thomas Utter
Director

Theodore C. Mayers
Director

# Consolidated Statements Of Loss And Deficit

(see note 1)

| For the years ended December 31<br>(In United States dollars) | 2002 | 2001 |
|---|---|---|
| **Expenses** | | |
| Consulting (note 6) | $ 267,478 | $ 320,202 |
| Office | 165,365 | 220,231 |
| Legal, accounting & audit | 104,048 | 227,262 |
| Travel & investor relations | 102,421 | 133,335 |
| Transfer agent & filing fees | 23,779 | 17,493 |
| Shareholder information | 34,933 | 19,358 |
| Sundry | 31,370 | 32,381 |
| | 729,394 | 970,262 |
| **Other items** | | |
| Gain on reorganization of Mexican operations (note 3) | (1,110,339) | - |
| Foreign exchange | (36,197) | (172,061) |
| Interest expense | 21,755 | 113,898 |
| Exploration costs written off (note 4) | 466,325 | 492,825 |
| **Net loss for year** | (70,938) | (1,404,914) |
| Deficit, beginning of year | (9,139,257) | (7,734,343) |
| **Deficit, end of year** | $ (9,210,195) | $ (9,139,257) |
| **Weighted average number of common shares outstanding** | 32,060,965 | 23,310,237 |
| **Loss per share** | $ (0.00) | $ (0.05) |

*See notes to consolidated financial statements*

# Consolidated Statements of Cash Flows

| For the years ended December 31<br>(In United States dollars) | 2002 | 2001 |
|---|---|---|
| **Operating Activities** | | |
| Net loss for the year | $ (70,938) | $ (1,404,914) |
| Net change in non-cash working capital items: | | |
| Cash held in escrow | (1,319,971) | - |
| Accounts receivable | 26,150 | 1,014 |
| Accounts payable | (99,355) | 343,685 |
| Due to officers and directors | (92,277) | 84,483 |
| Cash used in operating activities | (1,556,391) | (975,732) |
| **Investing Activities** | | |
| Mineral properties | - | 60,896 |
| Capital assets | - | 25,936 |
| Cash provided by investing activities | | 86,832 |
| **Financing Activities** | | |
| Shares issued for cash | 1,179,913 | 254,766 |
| Shares issued for services | 152,145 | |
| Capital subscriptions received | 294,017 | - |
| Cash provided by financing activities | 1,626,075 | 254,017 |
| **Increase (decrease) in cash** | 69,684 | (634,134) |
| Cash, beginning of year | 130,653 | 764,787 |
| **Cash, end of year** | $ 200,337 | $ 130,653 |

*See notes to consolidated financial statements*

# Notes To Consolidated Financial Statements

December 31, 2002 (in United States dollars except where otherwise indicated)

## 1. Nature of operations and going concern accounting basis

The Company is engaged in the business of the acquisition and development of mineral resource properties, with an emphasis on base and precious metals, and is in the process of exploring and developing its mineral properties located in Venezuela and Mexico. The ability to recover the investment in these properties is dependent upon: the discovery of economically recoverable reserves and resources, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the exploration, development and construction of processing facilities, obtaining certain governmental approvals and attaining profitable production, or through the disposition of the properties. The Company is considered to be a development stage enterprise as it has yet to generate any revenue from operations.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern and do not reflect adjustments related to the carrying values and balance sheet classification of assets and liabilities that would be necessary were the going concern assumption inappropriate.

## 2. Significant accounting policies

### a) Basis of presentation

The United States dollar is the principal currency of the Company's business and, accordingly, these consolidated financial statements are expressed in United States dollars.

### b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

### c) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. The most significant estimates used in these consolidated financial statements relate to the recoverability of the carrying value of the mineral properties.



### d) Mineral properties

The Company capitalizes the cost of acquiring mineral properties until such time as the extent of the mineralization has been determined and the mineral claims are developed, abandoned or allowed to lapse. Exploration costs are expensed in the period incurred.

If a property is abandoned or if it is determined that its value is less than the book value, the mineral property costs are written down in that year. When a property reaches commercial production, the mineral property costs will be amortized against production revenues.

Option receipts or the sale of an interest in a mining property or revenues received from bulk sampling or pilot projects are considered a recovery of costs and recorded as a reduction of the cost of the property.

The carrying cost of mineral properties does not necessarily reflect present or future values.

### e) Foreign currency translation

Transactions denominated in currencies other than United States dollars are translated at the exchange rate in effect at the transaction date. Assets and liabilities are translated at the rate prevailing at the balance sheet date. Exchange gains or losses are recorded in the consolidated statements of loss and deficit.

### f) Stock-based compensation plan

Effective January 1, 2002, the Company adopted the new standard ("CICA 3870") recommended by The Canadian Institute of Chartered Accountants, Stock-Based Compensation and Other Stock-Based Payments. The new standard requires stock-based payments to non-employees, direct awards of stock and awards that call for settlement in cash to be accounted for using the fair value method. Under the fair value method, compensation expense is measured at the grant date and recognized over the service period using an option-pricing model.

The Company has elected to continue to use the intrinsic value method of accounting for stock options granted to employees and directors under its stock option plan. The Company has disclosed the required pro forma effect on earnings and earnings per share as if the fair value method of accounting as prescribed in CICA 3870 had been applied (see note 5c).

### g) Loss per Share

Loss per share has been calculated using the weighted average number of shares outstanding during the year.

### h) Income taxes

Future income tax assets and liabilities are established where the accounting net book value of assets and liabilities differs from the corresponding tax basis. The benefit of future income tax assets is only recognized where their realization is judged to be more likely than not.

## 3. Reorganizing of Mexican Subsidiary

During 2002, the Company's Mexican subsidiary split its capital stock, formed a new company and transferred into the new company non-essential assets and the proportional amount of the tax losses. The original Mexican subsidiary retained its 100% interest in the San Antonio property.

On December 20, 2002, the Company completed the sale of all of the shares of the new subsidiary to an unrelated third party for cash proceeds of $1.3 million, which at December 31, 2002, was held in escrow pending the completion of a mandatory 45 day waiting period to permit creditors and employees to object to the reorganization and sale. As the Mexican subsidiary had neither employees nor creditors, the Company recognized the $1.3 million of proceeds, less transaction costs, for a gain of $1.1 million, in the statement of loss and deficit in 2002. The funds were released from escrow in 2003.

## 4. Mineral Properties



| Property | January 1, 2002 | Acquisitions | Exploration Property Expenses | Write-down | December 31, 2002 |
|---|---|---|---|---|---|
| San Antonio, Mexico (a) | $ 2,395,918 | | $ 192,253 | | $ 2,395,918 |
| El Foco, Venezuela (b) | 1,842,824 | | 273,764 | | 1,842,824 |
| Romina, Venezuela (c) | 600,000 | | | | 600,000 |
| | $ 4,838,742 | | $ 466,017 | | $ 4,838,742 |

| Property | January 1, 2001 | Acquisitions | Exploration Property Expenses | Write-down & Gold Sales | December 31, 2001 |
|---|---|---|---|---|---|
| San Antonio, Mexico (a) | $ 2,456,814 | | $ 174,317 | $ (60,896) | $ 2,395,918 |
| El Foco, Venezuela (b) | 1,842,824 | | 318,508 | | 1,842,824 |
| Romina, Venezuela (c) | 600,000 | | | | 600,000 |
| | $ 4,899,638 | | $ 492,825 | $ (60,896) | $ 4,838,742 |

### a) San Antonio, Mexico

Pursuant to an option agreement dated October 1993, the Company completed the acquisition of mineral concessions located near San Antonio, Mexico, 90 miles from Hermosillo, the capital of the state of Sonora, Mexico.

A 2% Net Smelter Return royalty in perpetuity, to a maximum of $3,000,000, is payable on copper and a 2% Net Smelter Return royalty in perpetuity to a maximum of $3,000,000 is payable on gold produced from the properties.

## Notes To Consolidated Financial Statements

December 31, 2002 (in United States dollars except where otherwise indicated)

In 1997, the Company entered into an agreement with Ridgewood del Cobre, LLC. ("Ridgewood"), whereby Ridgewood would acquire a 50.1% interest in the copper deposit at San Antonio, in exchange for payments to the Company totaling $1 million, and providing the capital funding required to put the property into production. Ridgewood subsequently advised the Company of its intention not to proceed with the project. Ridgewood advanced $125,000 to the Company, secured by a non-interest bearing promissory note, which matured on January 31, 1998. Should the Company be requested to repay the advance, it intends to file a claim for liquidated damages of an equivalent amount.

In 1999, the Company entered into an earn-in agreement with Alamos Minerals Ltd., where, by successfully completing a production scale metallurgical test on San Antonio ores it could earn an interest in the gold properties. In 2001, Alamos decided to terminate its activities and thereby lost its rights. During 2001, the Company received $60,896 from gold sales from the terminated heap-leaching pilot project.

### b) El Foco, Venezuela

In 1999, the Company acquired 100% of the exclusive exploration, development and exploitation rights for alluvial and vein-type gold and diamonds on a 19,000 hectare block of concessions termed "El Foco", located in the State of Bolivar in southeastern Venezuela.

The vendor retained a 1% Net Smelter Return royalty from all metal or diamond production from the property. The Company has the right, but not the obligation to purchase this royalty. A previous owner has a 3% Net Smelter Return royalty from gold and diamonds produced at El Foco from mineral reserves and resources found subsequent to its sale of the property rights.

On May 6, 2002, the Company entered into a Heads of Agreement with Honnold Corp., a member of the Cisneros Group of Companies in Venezuela. Under this Agreement, subject to the findings from the respective Company's joint exploration data analysis, the Companies will enter into a definitive business arrangement. Honnold Corp. owns the Chicanan East Gold Project, which borders the Company's El Foco project.



### c) Romina, Venezuela

In 2000, the Company purchased 100% of the exploration, development and subsequent exploitation rights to the 1,336 hectare Romina concession in Venezuela and 11.44% of the shares of Latin American Gold (Ecuador) Holding Company Ltd., which owns 100% of the shares of Latin American Gold (Ecuador) Ltd., which through Compania Minera de Zamora SA, owns an interest in the mining rights to the 200 hectares Guayzimi Alto concession and gold mine located in Ecuador.

The Romina project was written down in 2000 to the value determined by an independent geological consultant.

## 5. Share Capital

There are no issued and outstanding Class A or Class B preference shares. Common shares issued and outstanding since December 31, 2000 are as follows:

| Fiscal period and consideration received | Number of shares | Date | Amount |
|---|---|---|---|
| Balance at December 31, 2000 | 23,125,965 | | $ 12,858,646 |
| For cash - private placement | 4,000,000 | December | 316,717 |
| Balance at December 31, 2001 | 27,125,965 | | 13,175,363 |
| Issued during the fiscal year 2001 | | | |
| For cash – private placement | 8,000,000 | June | 1,419,597 |
| For services | 1,610,000 | November | 152,145 |
| Less: financing costs | | | (301,635) |
| Balance at December 31, 2002 | 36,735,965 | | $ 14,445,470 |

In June, 2002, the Company raised $1,419,597 before costs by issuing 8,000,000 units at C$0.28. Each unit comprised one common share and two common share purchase warrants; one warrant entitles the holder to purchase one-half common share at a price of C$0.40 per full share before June 28, 2004 and the second warrant entitles the holder to purchase one-half common share at a price of C$0.50 per full share before June 28, 2005.

In November, the Company issued 1,610,000 common shares in satisfaction of amounts owing for assistance in investor relations, corporate reorganization and financing in Europe. The value assigned to the shares was C$0.15 per share.

In January, 2003 the Company completed a private placement of 3 million units at C$0.23 with each unit comprising one common share and a warrant entitling the holder to purchase one common share at C$0.30 before June 24, 2005. Subscriptions received prior to December 31, 2002, less costs incurred, totaling $294,017 are shown on the balance sheet as Capital subscriptions received

During 2001, the Company raised $316,717 by a private placement of 4 million common shares at C$0.125

### b) Options and warrants outstanding

A summary of the status of the Company's stock option plan is:

| | December 31, 2002 | | | December 31, 2001 | | |
|---|---|---|---|---|---|---|
| | Number of shares | Weighted average option price | | Number of shares | Weighted average option price | |
| Outstanding at beginning of year | 172,000 | C$ | 1.90 | 172,000 | C$ | 1.90 |
| Granted | 3,100,000 | | 0.25 | - | | - |
| Cancelled | (672,000) | | 0.64 | - | | - |
| Outstanding at year end | 2,600,000 | | 0.26 | 172,000 | | 1.90 |
| Options exercisable at year end | - | | - | 172,000 | | 1.90 |

Under the terms of the Company's Stock Option Plan, which was amended in July, 2002, up to 3,150,000 common share options may be granted for terms of up to ten years, at an exercise price no lower than the market price at the time of the grant. Of the options outstanding at year-end, 1,050,000 vest on February 1, 2004 and expire on February 1, 2007 and 400,000 options will vest as to one-third on July 5, 2002 and on each anniversary thereafter, expiring July 5, 2007. The remaining 1,150,000 options will vest as to one-third on October 1, 2002 and one-third on each anniversary, expiring October 1, 2007. The vesting provisions for the July and October option grants are subject to the approval by the shareholders of amendments to the Stock Option Plan.



### c) Pro Forma Net Loss, Fair Value Based Method of Accounting for Stock Options

The following shows pro forma net loss and loss per common share had the Company applied the fair value based method of accounting for all stock options outstanding.

| | December 31, 2002 | |
|---|---|---|
| Net loss: | | |
| - as reported | $ | 70,938 |
| - pro forma | | 246,323 |
| Basic loss per common share: | | |
| - as reported | | 0.00 |
| - pro forma | $ | 0.00 |

The Black-Scholes options valuation model was used to estimate the fair value of director and employee options, which have similar vesting restrictions. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The fair value of option grants using the Black-Scholes model is estimated on the date of grant using the following weighted-average assumptions:

| | December 31, 2002 |
|---|---|
| | $ |
| Dividend yield | 0% |
| Expected volatility | 156% |
| Risk-free interest rate | 5% |
| Expected lives | 3 years |

The weighted average fair value per share of stock options granted during the year ended December 31, 2002 is $0.22.

# Notes To Consolidated Financial Statements

December 31, 2002 (in United States dollars except where otherwise indicated)

### d) Share purchase warrants

| | Equivalent Number of Shares | Exercise Price | Expiry Date |
|---|---|---|---|
| Balance outstanding December 31, 2000 | 2,100,000 | C$0.51 | July 1, 2001 |
| Expired, July 1, 2001 | (2,100,000) | - | - |
| Balance, December 31, 2001 | - | - | - |
| Issued, June 28, 2002 | 4,000,000 | 0.40 | June 28, 2004 |
| | 4,000,000 | 0.50 | June 28, 2005 |
| Balance outstanding, December 31, 2002 | 8,000,000 | | |

In connection with the issue of 3,000,000 units at C$0.23 on January 21, 2003, each unit comprises one common share and a warrant entitling the holder to purchase one common share at C$0.30 before June 24, 2005.

## 6. Related Party Transactions

Consulting fees shown as an expense of $267,478 ($320,202 in 2001) are fees paid to the Chief Executive Officer, the Chief Operating Officer, and the Chief Financial Officer, for service in their designated roles during the year. The amount owing to officers and directors at December 31, 2002 is $80,350 ($172,627 in 2001).

## 7. Segmented Information

The Company is primarily engaged in the mining industry in Mexico and Venezuela, which involves exploration of properties for mineable resources with the aim of subsequent development. The Company has its head office in Toronto, Ontario, Canada and has maintained shareholders and investors' relations representation in Norway and in Germany. Operations and identifiable assets by geographic region are as follows:

| | December 31, 2002 | December 31, 2001 |
|---|---|---|
| Segment contribution to loss | | |
| Norway | $ (161,821) | $ (201,807) |
| Venezuela | (273,764) | (429,784) |
| Canada | (596,094) | (581,475) |
| Mexico | 918,086 | (191,848) |
| Loss for the year | $ (70,938) | $ (1,404,914) |
| Identifiable assets | | |
| Norway | $ - | $ 67,995 |
| Venezuela | 2,442,824 | 2,466,815 |
| Canada | 216,599 | 126,099 |
| Mexico | 3,734,389 | 2,431,349 |
| Total assets | $ 6,393,812 | $ 5,092,258 |

## 8. Comparative Figures

Certain of the prior years financial statement figures have been reclassified to conform with the presentation adopted in the current year.



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# Corporate And Investor Relations Information

## Directors and Executive Officers

**Kaspar K. Kielland***
(Oslo, Norway)
Chairman of the Board

**Prof. Dr. Thomas F. Utter**
(Bad Vilbel, Germany)
President and Chief Executive Officer

**Frank van de Water**
(Toronto, Canada)
Chief Financial Officer and Secretary
as from July 26th 2002

**Ted C. Mayers***
(Toronto, Canada)
Director

**Edwin G. Morrow**
(Lake Tahoe, USA)
Director
Vice President and Chief Operating Officer

**Prof. Dr. Peter Lorange***
(Lausanne, Switzerland)
Director

**Douglas F.S. Coate**
(Oakville, Canada)
Legal Counsel

* Audit Committee member

## Corporate Office

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## Stock Exchange Listing, Share Transfer

The Toronto Stock Exchange
TSX Symbol: ZMR
Cusip No.: 98914P103

Transfer Agent:
Computershare Investor Services
Vancouver, Canada

Over-the-Counter Trading:

Frankfurt and Berlin
Stock Exchanges
(Freiverkehr, Germany)

Symbol: ZMR

WKN: 886597

**Shares Outstanding: 36,735,965**

## Auditor

Ernst & Young LLP

## Notice of Meeting

The Annual General Meeting
of the Shareholders of
Zaruma Resources Inc.
will be held on
Monday, June 23rd, 2003
at 10:00 am
Second Floor, 20 Toronto Street
Toronto, Ontario, Canada

ZARUMA RESOURCES INC.