

**PLANET EXPLORATION INC.**

**FINANCIAL STATEMENTS  
YEARS ENDED MARCH 31, 2003 AND 2002**

# **GLEN E. KLASSEN**

## **Chartered Accountant**

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## **AUDITOR'S REPORT**

To the Shareholders of  
Planet Exploration Inc.

I have audited the balance sheets of Planet Exploration Inc. as at March 31, 2003 and 2002 and the statements of loss and deficit, and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2003 and 2002 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) Glen E. Klassen  
CHARTERED ACCOUNTANT

Calgary, Alberta  
July 28, 2003

PLANET EXPLORATION  
BALANCE SHEETS  
MARCH 31, 2003 AND 2002

	2003	2002
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and Term Deposit	912,173	5,403
Due from Director and Officer (Note 7)	18,008	-
GST Recoverable	36,266	547
Accounts Receivable	<u>6,100</u>	<u>-</u>
	972,547	5,950
Mineral Properties (Note 4)	916,947	207,836
Incorporation Costs	<u>1,000</u>	<u>1,000</u>
	<u><b>1,890,494</b></u>	<u><b>214,786</b></u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts Payable	<u>98,324</u>	<u>4,167</u>
<b>SHAREHOLDERS' EQUITY</b>		
COMMON SHARES (Note 5)	2,242,431	498,177
WARRANTS (Note 5)	<u>58,029</u>	<u>-</u>
	2,300,460	498,177
DEFICIT	<u>(508,290)</u>	<u>(287,558)</u>
	<u><b>1,792,170</b></u>	<u><b>210,619</b></u>
	<u><b>1,890,494</b></u>	<u><b>214,786</b></u>

APPROVED BY THE BOARD

*signed*  
"Ranjeet Sundher"  
Director

*signed*  
"Darold H. Parken"  
Director

**PLANET EXPLORATION INC.**  
**STATEMENTS OF LOSS AND DEFICIT**  
**YEARS ENDED MARCH 31, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUE</b>	<u>-</u>	<u>-</u>
<b>EXPENSES</b>		
General and Administrative	183,232	19,632
Stock Based Compensation	<u>37,500</u>	<u>-</u>
	<u>220,732</u>	<u>19,632</u>
<b>LOSS BEFORE THE FOLLOWING</b>	<b>(220,732)</b>	<b>(19,632)</b>
Writedown of mineral properties	<u>-</u>	<u>(163,322)</u>
<b>NET LOSS FOR THE YEAR</b>	<b>(220,732)</b>	<b>(182,954)</b>
DEFICIT, opening	<u>(287,558)</u>	<u>(104,604)</u>
DEFICIT, closing	<u><b>(508,290)</b></u>	<u><b>(287,558)</b></u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u><b>(0.03)</b></u>	<u><b>(0.04)</b></u>

**PLANET EXPLORATION INC.**  
**STATEMENTS OF CASH FLOW**  
**YEARS ENDED MARCH 31, 2003 and 2002**

	<b>2003</b>	<b>2002</b>
<b>OPERATING ACTIVITIES</b>	<b>\$</b>	<b>\$</b>
Net Loss for the Period	(220,732)	(182,954)
Item not affecting cash		
Stock-based compensation	37,500	-
Writedown of Mineral Properties	<u>-</u>	<u>163,322</u>
Cash flow from operations	(183,232)	(19,632)
Net Changes in Non-cash Working Capital Items Related to Operations	<u>34,330</u>	<u>1,778</u>
	<u>(148,902)</u>	<u>(17,854)</u>
<b>FINANCING ACTIVITIES</b>		
Issue common shares and warrants net of issuance costs of \$90,557	<u>1,704,783</u>	<u>-</u>
<b>INVESTING ACTIVITY</b>		
Acquisition of Mineral Properties	(670,436)	(2,167)
Disposition of Mineral Properties	<u>21,325</u>	<u>-</u>
	(649,111)	(2,167)
<b>INCREASE (DECREASE) IN CASH</b>	906,770	(20,021)
<b>CASH, BEGINNING OF PERIOD</b>	<u>5,403</u>	<u>25,424</u>
<b>CASH, END OF PERIOD</b>	<u><u>912,173</u></u>	<u><u>5,403</u></u>

**PLANET EXPLORATION INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Mineral Properties**

Mineral exploration costs are capitalized. When and if production commences these expenditures will be amortized over the life of the estimated ore reserves on the unit of production basis. If a project is abandoned or considered to be of no further interest to the Company, the related expenditures are charged to income. The costs deferred at any time do not necessarily reflect present or future values.

**Flow-through shares**

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Under the liability method of accounting for income taxes, the future income taxes related to the temporary differences arising at the later of the date of the renunciation and when the qualifying expenditures are incurred, are recorded at that time together with a corresponding reduction to the carrying value of the shares issued.

**Joint Ventures**

The Company conducts all of its mining activities on a joint venture basis. These financial statements reflect the Company's proportionate interest in such ventures.

**Cash and cash equivalents**

Cash equivalents include short-term investments with maturities of less than 90 days.

**Measurement Uncertainty**

The value assigned to unproven mineral properties acquired by the Company is based on estimated fair market value. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

**Income taxes**

The Company follows the liability method of accounting for future income taxes, under which future income tax assets and liabilities are determined based on "temporary differences" and are measured using the current, or substantially enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

**Per Share Amounts**

Per share amounts are based on the weighted average of common shares outstanding during the year. Diluted amounts per share are based on the dilutive effect of stock options and other dilutive instruments using the treasury stock method.

**Foreign Currency Translation**

The Company uses the temporal method of foreign currency translation to translate the accounts of its foreign operations. Monetary items are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

## 2. CHANGE IN ACCOUNTING POLICY

Effective April 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for stock-based compensation arrangements. The Company has elected to continue to use the intrinsic value-based method of accounting for its stock options plans, whereby no compensation expense is recorded for employee stock options that have an exercise price equal to the fair value of the stock at the date options are granted. The Company will disclose the pro forma results of using the fair value method, under which compensation expense is recorded based on the estimated fair value of the options. Pro forma results are presented only for the effects of options granted subsequent to April 1, 2002.

Stock options awarded to non-employees must be accounted for using the fair value method. The compensation is reflected in the financial statements as an expense and an increase to share capital at the time the stock options are granted.

The Black-Scholes option pricing model is not appropriate for an illiquid security. Therefore, fair value has been determined by giving consideration to subsequent securities issuances by the Company, both completed and proposed. Also, consideration was given to the value attached to the stock options in exchange for services by an arms length consultant, and the recent trading history of the Company's common shares. An estimated weighted average of these factors was then applied.

For the year ended March 31, 2003, the Company's pro forma net loss was \$258,232 and the pro forma basic loss per share was \$0.04.

## 3. NATURE OF OPERATIONS

The Company directly and through joint ventures, is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

## 4. MINERAL PROPERTIES

The Company's mineral properties are located as follows:

	<u>2003</u>	<u>2002</u>
	\$	\$
Red Lake Ontario	851,885	207,836
Mongolia	<u>65,062</u>	<u>-</u>
	<u>916,947</u>	<u>207,836</u>

## 5. SHARE CAPITAL

### Authorized capital

Unlimited number of common voting shares without nominal or par value.

Unlimited number of first preferred shares.

Unlimited number of second preferred shares.

The issued common shares are as follows:

	<u>2003</u>		<u>2002</u>	
	<u>Number of Shares</u>	<u>Consideration \$</u>	<u>Number of Shares</u>	<u>Consideration \$</u>
Balance, beginning of the year	4,750,000	498,177	4,750,000	498,177
Flow-through common shares issued for cash	1,747,540	739,615	-	-
Common shares issued for cash	1,555,405	709,446		
Shares issued for cash upon exercise of stock options	632,500	63,250	-	-
Flow-through special warrants issued for cash and subsequently converted to common shares	1,650,000	148,500	-	-
Special warrants issued for cash and subsequently converted to common shares	850,000	76,500		
Shares issued for mineral properties	200,000	60,000	-	-
Stock option compensation	-	37,500	-	-
Share issue costs	-	(90,557)	-	-
Future income taxes effect of renounced expenditures	-	(209,971)	-	-
Future income taxes asset offset	-	209,971	-	-
	<u>11,385,445</u>	<u>2,242,431</u>	<u>4,750,000</u>	<u>498,177</u>

#### Warrants

	<u>2003</u>		<u>2002</u>	
	<u>Number of Warrants</u>	<u>Consideration \$</u>	<u>Number of Warrants</u>	<u>Consideration \$</u>
Warrants issued for cash during the year	<u>5,802,945</u>	<u>58,029</u>	<u>-</u>	<u>-</u>

Specific details as to warrants outstanding are as follows:

Number	Price per Common Share \$	Expiry Date
2,500,000	0.125	June 9, 2004
1,302,945	0.45	November 28, 2003
<u>2,000,000</u>	0.60	March 10, 2004
<u>5,802,945</u>		

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares

of each series.

As at March 31, 2003, 375,000 shares were held in escrow on behalf of the principals of the Company and are subject to the direction and determination of the regulatory authorities in the Province of Alberta. Their date of release is July 13, 2003.

### Stock options

The Company has established a stock option plan whereby the Company may grant options to its directors, officers, employees and key consultants for up to 950,000 common shares. Subsequent to the year end, the Company increased the total number of common shares issuable to 2,200,000. The exercise price of each option equals the market price of the Company's stock on the date of the grant (less any permitted discount, if any) and an option's maximum term is five years. Certain of the stock options vest over three years. The following is a continuity of stock options outstanding for which shares have been reserved.

	2003		2002	
	Options	Weighted-Average Exercise Price \$	Options	Weighted-Average Exercise Price \$
Opening	332,500	0.10	332,500	0.10
Granted	500,000	-	-	-
Exercised	<u>(632,500)</u>	<u>0.10</u>	<u>-</u>	<u>-</u>
End of year	<u>200,000</u>	<u>0.10</u>	<u>332,500</u>	<u>0.10</u>

The following summarizes information about stock options outstanding at March 31, 2003:

Range of Exercise Prices \$	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price \$
<u>0.10</u>	<u>200,000</u>	<u>2.6</u>	<u>0.10</u>

## 6. INCOME TAXES

Income tax recovery differs from the amount that would be computed by applying the basic combined Canadian federal and provincial statutory income tax rate to the net loss for the year. The reasons for the differences are as follows:

	2003 \$	2002 \$
Net loss	(217,232)	(182,954)
Combined Canadian federal and provincial statutory rate	42.24%	42.6%
Computed recovery	(91,759)	(77,938)
Non-deductible writedown of mineral properties	-	69,575
Non-deductible stock option compensation	15,840	-
Share issue costs deducted for tax purposes	(14,011)	(6,416)
Benefit of loss carryforwards tax deduction not recognized	<u>89,930</u>	<u>14,779</u>
Actual Recovery	<u>-</u>	<u>-</u>

It has been determined that it is not more likely than not that the future income tax asset will be realized, so no portion has been recognized in the financial statements. The components of the Company's net future income tax asset is as follows:

	<b>2003</b>	2002
	<b>Total</b>	Total
	<b>\$</b>	\$
Benefit of non-capital losses	<b>162,692</b>	72,568
Net book value (greater) less than tax pools	<b>(152,047)</b>	58,925
Benefit of share issue costs	<u><b>30,601</b></u>	<u>6,416</u>
	<u><b>41,246</b></u>	<u>137,909</u>

As at March 31, 2003, the Company has unrecognized loss carry-forwards for income tax purposes of \$385,161 (2002 - \$170,348) available for deduction against future years' taxable income. These losses expire as follows:

	\$
2006	68,450
2007	52,507
2008	14,657
2009	34,734
2010	<u>214,813</u>
	<u><u>385,161</u></u>

## **7. RELATED PARTY TRANSACTIONS**

- a) The Company incurred \$7,560 (2002 - \$3,850) in legal fees from a law firm in which an officer and director of the Company is a principal. Accounts payable includes \$7,902 (2002 - \$Nil) owing to that law firm. The fees are included in general and administrative expenses.
- b) A director and officer owes \$85,005 in connection with the purchase of 412,176 common shares. This debt is non-interest bearing with no fixed terms of repayment. The director and officer has indicated that he will pay the debt in full by the third quarter of the subsequent fiscal year. This individual was owed \$66,997 for accrued salary which was paid subsequent to the year end.
- c) A Company in which a director and officer is a principal received \$4,250 in geological consulting fees. These fees were included in additions to mineral properties.

## **8. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and term deposit, accounts receivable, due from director and officer, and accounts payable. The fair value of the financial instruments approximate their carrying values, unless otherwise noted. It is management's opinion that they are not exposed to significant credit risk.

## **9. COMMITMENTS**

In accordance with the terms of the flow through share agreements and pursuant to the provisions of the Income Tax Act, at March 31, 2003 the Company is committed to future exploration expenditures in the aggregate amount of \$393,305 (2002 - \$Nil). These expenditures must be incurred prior to March 31, 2005.

## 10. SUBSEQUENT EVENTS

- a) The Company has issued 3.5 million common shares for additional interests in mineral properties in the Red Lake area of Ontario. The estimated fair market value of the consideration is \$1,715,000.
- b) The Company has issued 50,000 common shares upon exercise of stock options for a total consideration of \$5,000.
- c) The Company has issued 140,000 common shares upon exercise of warrants for a total consideration of \$64,400.
- d) The Company granted stock options as follows:

<b>Number of optioned shares</b>	<b>Exercise Price \$</b>	<b>Expiry Date</b>
500,000	0.70	April 2, 2008
100,000	0.62	April 2, 2004
500,000	0.60	May 28, 2008
<u>100,000</u>	0.75	May 28, 2008
<u>1,200,000</u>		