

Financial Statements of

**WILDCAT
EXPLORATION LTD.**

Years ended December 31, 2002 and 2001



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AUDITORS' REPORT

To the Shareholders of Wildcat Exploration Ltd.

We have audited the balance sheets of Wildcat Exploration Ltd. as at December 31, 2002 and 2001 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these 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.

Signed “**KPMG LLP**”

Chartered Accountants

Winnipeg, Canada

April 9, 2003



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WILDCAT EXPLORATION LTD.

Balance Sheets

As at December 31, 2002 and 2001

	2002	2001
Assets		
Current assets:		
Cash	\$ 5,997	\$ 3,846
Accounts receivable [note 7(a)]	2,956	104,232
Grant receivable	—	85,071
	<u>8,953</u>	<u>193,149</u>
Mineral exploration properties (note 4)	1,636,320	1,581,476
Capital assets (note 5)	14,937	18,669
	<u>\$ 1,660,210</u>	<u>\$ 1,793,294</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 291,646	\$ 425,618
Shareholder loan (note 8)	30,000	50,000
	<u>321,646</u>	<u>475,618</u>
Shareholders' equity:		
Capital stock (note 6)	2,995,149	2,236,746
Deficit	(1,656,585)	(919,070)
	<u>1,338,564</u>	<u>1,317,676</u>
Basis of presentation (note 2)		
Commitments (note 10)		
	<u>\$ 1,660,210</u>	<u>\$ 1,793,294</u>

See accompanying notes to financial statements.

On behalf of the Board:

"Jerrold Siemens" Director

"Joe Baylis" Director

WILDCAT EXPLORATION LTD.

Statements of Operations and Deficit

Years ended December 31, 2002 and 2001

	2002	2001
Operating expenses	\$ 237,046	\$ 402,783
Harmony project [note 10 (b)]	289,267	–
Write-down of mineral property (note 4)	211,202	–
Loss for the year	737,515	402,783
Deficit, beginning of year	919,070	516,287
Deficit, end of year	\$ 1,656,585	\$ 919,070
Basic and diluted loss per common share [note 6(h)]	\$ (.09)	\$ (.06)

See accompanying notes to financial statements.

WILDCAT EXPLORATION LTD.

Statements of Cash Flows

Years ended December 31, 2002 and 2001

	2002	2001
Cash provided by (used in):		
Operations:		
Loss for the year	\$ (737,515)	\$ (402,783)
Items not involving cash:		
Amortization	3,732	2,243
Write-down of mineral property	211,202	-
Change in non-cash operating working capital:		
Accounts receivable	101,276	(67,875)
Accounts payable and accrued liabilities	(22,978)	226,510
	(444,283)	(241,905)
Financing:		
Issuance of capital stock, net	758,403	398,550
Restricted cash	-	595,895
Increase (decrease) in shareholder loan	(20,000)	50,000
	738,403	1,044,445
Investments:		
Purchase of capital assets	-	(19,392)
Grant receivable	85,071	(85,071)
Exploration expenditures	(266,046)	(765,323)
Accounts payable relating to exploration expenditure	(110,994)	-
	(291,969)	(869,786)
Increase (decrease) in cash	2,151	(67,246)
Cash, beginning of year	3,846	71,092
Cash, end of year	\$ 5,997	\$ 3,846

See accompanying notes to financial statements.

WILDCAT EXPLORATION LTD.

Notes to Financial Statements

Years ended December 31, 2002 and 2001

1. General:

The company is active in the acquisition and exploration of mining properties and holds interests in exploration properties in the Province of Manitoba. The company does not exploit any mines nor does it have any direct or indirect interests in a mine.

The company is incorporated under *The Corporations Act of Manitoba*.

2. Basis of presentation:

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because the company experienced significant losses in 2001 and 2002 and has experienced significant negative cash flow from operations over a number of years.

The ability of the company to continue as a going concern and to be able to realize on its assets and discharge its liabilities is dependant upon the company's ability to obtain sufficient funding for its operations and is ultimately dependant on the recoverability of the amounts capitalized to mineral exploration properties. The company has not yet determined whether its mineral properties contain gold reserves that are economically recoverable, and accordingly, the success of any further exploration or development prospects cannot be assured. The company may not be able to raise the necessary capital to continue to finance and meet its contractual obligations, and may have to forfeit any interest in the properties or prospects earned or assumed under such contracts. If the company's exploration and development programs are successful, additional funds may be required, and the company may not have sufficient funds to conduct the mineral exploration required. The primary source of future funds available to the company is through the sale of additional equity capital, which may dilute the interests of existing shareholders. There is no assurance that the company will be successful in raising sufficient funds to meet its obligations. In the event where it cannot meet its obligations, it may lose its properties.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported expenses.

WILDCAT EXPLORATION LTD.

Notes to Financial Statements (continued)

Years ended December 31, 2002 and 2001

3. Significant accounting policies:

(a) Mineral exploration properties:

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Amounts reflected for mineral exploration properties not in commercial production represent costs incurred to date, net of write-downs and are not intended to reflect present or future values. The recoverability of the cost is dependent upon the discovery of economically recoverable ore reserves, the ability to obtain necessary financing to complete development and the development of future profitable production from the properties or realization of sufficient proceeds from the disposition of the properties.

The costs relating to identifiable groups of property will be written-down to net realizable value if exploration activities prove unsuccessful or if the groups of property are abandoned.

(b) Capital assets:

Capital assets are stated at cost. Amortization is provided using the following method and annual rate:

Asset	Basis	Rate
Office equipment	Declining balance	20%
Vehicle	Declining balance	20%

(c) Flow-through shares:

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation.

(d) Income taxes:

Income taxes are accounted for under the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

WILDCAT EXPLORATION LTD.

Notes to Financial Statements (continued)

Years ended December 31, 2002 and 2001

3. Significant accounting policies (continued):

(e) Stock based compensation:

The company has a stock-based compensation plan, which is described in note 6. The company accounts for all stock-based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2002, using the fair value based method. No compensation cost is recorded for all other stock-based employee compensation awards. Consideration paid by employees on the exercise of stock options is recorded as share capital and contributed surplus. The company discloses the pro forma effect of accounting for these awards under the fair value based method.

(f) Per share amounts:

Per share amounts are computed using the weighted average number of common shares outstanding during the year. Diluted per share amounts are computed using the treasury stock method which assumes all common share equivalents such as options and warrants had been exercised at the beginning of the reporting period of issue and that the funds obtained thereby were used to purchase common shares of the company at the average trading price of the common shares during the year.

(g) Government assistance:

The company periodically applies for financial assistance under available government incentive programs. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets.

The company received government assistance of \$35,316 in 2002 and \$85,071 in 2001.

(h) Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the year. Actual results could differ from those estimates.

WILDCAT EXPLORATION LTD.

Notes to Financial Statements (continued)

Years ended December 31, 2002 and 2001

4. Mineral exploration properties:

	Bissett	Reed Lake	Total
Balance at January 1, 2001	\$ 779,280	\$ 36,873	\$ 816,153
Additions	631,292	134,031	765,323
Balance at December 31, 2001	1,410,572	170,904	1,581,476
Additions	225,748	40,298	266,046
Write-down of mineral property	–	(211,202)	(211,202)
Balance at December 31, 2002	\$ 1,636,320	\$ –	\$ 1,636,320

(a) Bissett:

The Bissett area, also known as Rice Lake, is a gold prospect comprising over 230 square kilometers. Work on the property during the year was a diamond drill program. The company owns a 100% interest in 149 mineral claims on this property.

(b) Reed Lake:

Reed Lake is a Platinum Group Elements prospect covering approximately 70 square kilometers. This property was abandoned during the year, and accordingly, the carrying amount was written off and charged to current year operations. The company previously held an option to acquire a 100% interest in 41 mineral claims on this property.

5. Capital assets:

2002	Cost	Accumulated amortization	Net book value
Office equipment	\$ 2,217	\$ 1,243	\$ 974
Vehicle	19,393	5,430	13,963
	\$ 21,610	\$ 6,673	\$ 14,937

2001	Cost	Accumulated amortization	Net book value
Office equipment	\$ 2,217	\$ 1,001	\$ 1,216
Vehicle	19,393	1,940	17,453
	\$ 21,610	\$ 2,941	\$ 18,669

WILDCAT EXPLORATION LTD.

Notes to Financial Statements (continued)

Years ended December 31, 2002 and 2001

6. Capital stock:

	2002		2001	
	Shares	Amount	Shares	Amount
Authorized:				
Unlimited common shares				
Issued:				
Beginning of year	7,396,955	\$ 2,236,746	6,668,205	\$ 1,838,196
Shares issued in private placement (a)	108,000	99,360	–	–
Conversion of warrants (b)	410,000	184,500	–	–
Conversion of warrants (c)	790,905	474,543	556,250	333,750
Shares issued in offering (d)	–	–	172,500	64,800
Balance, end of year	8,705,860	\$ 2,995,149	7,396,955	\$ 2,236,746

Options and warrants:

Issuee (expiry date)	Original granted	Exercise price per share	December 31, 2000	Granted (exercised) (forfeited)*	December 31, 2001	Granted (exercised) (forfeited)*	Expired	December 31, 2002
<i>Options:</i>								
Directors, officers and employees (e):								
(September 20, 2005)	545,000	\$ 0.45	545,000	(70,000)*	475,000	(100,000) *	–	375,000
Director and officers (May 31, 2007)	300,000	0.60	–	–	–	300,000	–	300,000
<i>Warrants:</i>								
Promissory notes (b) (April 2002)	430,000	0.45	430,000	–	430,000	(410,000)	(20,000)	–
Initial public offering (b) and (c) (April 30, 2002)	3,291,205	0.60	3,291,205	(1,112,500)	2,178,705	(1,581,814)	(596,891)	–
December 2001 share offering (d) (June 30, 2003)	172,500	0.70	–	172,500	172,500	–	–	172,500

(a) In 2002, the company completed a private placement for 108,000 common shares which was settled with cash.

(b) In 2000, the company issued unsecured convertible promissory notes. In November 2000, all of the notes were converted into B units of the company's initial public offering [note 6(c)] resulting in the issuance of 493,705 common shares and 493,705 common share purchase warrants. The warrants rights and terms are described in (c) below. In addition, on conversion, the holders of the notes were granted 430,000 bonus warrants. Each bonus warrant entitles its holder to subscribe for one common share at \$0.45. The bonus warrants expired in April 2002.

WILDCAT EXPLORATION LTD.

Notes to Financial Statements (continued)

Years ended December 31, 2002 and 2001

6. Capital stock (continued):

- (c) An initial public offering included 2,797,500 share purchase warrants. Two common share purchase warrants entitle the holder thereof to subscribe for one common share at a price of \$0.60 until April 30, 2002.

During fiscal 2002, 1,581,814 warrants (2001 - 1,112,500 warrants) were exercised and converted into 790,905 common shares (2001 - 556,250 common shares) for cash consideration of \$474,543 (2001 - \$333,750).

- (d) In 2001, there was a share offering consisting of the issuance of units at a price of \$1,500 per unit. Each unit comprised of (i) 2,000 flow-through shares (the "flow-through shares") for a total consideration of \$1,200 and (ii) 500 common shares (the "common shares") for a total consideration of \$300. Each unit also included 2,500 common share purchase warrants. Two common share purchase warrants entitle the holder thereof to subscribe for one common share at a price of \$.70 until June 30, 2003.

The company issued 172,500 common shares (of which 138,000 are flow-through) and 172,500 common share purchase warrants for cash consideration of \$64,800, net of commissions of \$8,280 and share issue costs of \$30,420.

- (e) Stock-based compensation plan:

The company has a discretionary stock option plan. Under the plan, the company may grant options to its employees, directors and officers for up to 10% of the common shares issued and outstanding. The options granted under the plan are valid for a period of five years from the date of their grant and are subject to vesting at a rate of 20% of the options granted every six months and are exercisable at a price equal to the greater of \$0.45 or the weighted average trading price for the ten trading days immediately prior to the date of the granting of the option.

During the year, no compensation costs were recorded in the statement of operations for options granted to employees.

WILDCAT EXPLORATION LTD.

Notes to Financial Statements (continued)

Years ended December 31, 2002 and 2001

6. Capital stock (continued):

Had compensation costs been determined using the fair value based method at the grant dates for awards under the plan, the company's pro forma net earnings, earnings per share and diluted earnings per share would have been as follows:

Pro forma loss for the year	\$ (773,335)
Pro forma loss per share:	
Basic	\$ (.09)
Diluted	\$ (.09)

The compensation costs reflected in these pro forma amounts were calculated using the Black-Scholes option pricing model assuming a risk-free interest rate of 6.00%, an expected volatility of 250% and expected lives of stock options of 5 years.

(f) Transactions subsequent to year end:

Subsequent to year end, 333,333 units were issued through a private placement at a price of \$.30 per unit. Each unit consisted of (i) one common share and (ii) one common share purchase warrant. Each warrant entitles the holder thereof to subscribe for one common share at a price of \$0.45 until September 30, 2004.

Subsequent to year end:

- 358,466 common shares and 158,466 warrants were issued to satisfy outstanding debt obligations for various services in the amount of \$107,540, and
- 50,000 of the options which expire in May, 2007 were forfeited.

(g) Escrowed shares:

In 2000, 2,452,000 common shares were placed in escrow. Pursuant to the escrow agreement, the common shares are to be released from escrow on the following basis:

- 10% upon the event of the company receiving a listing on the TSX Venture Exchange for the securities as detailed in the company's prospectus dated October 26, 2000;
- 15% of the shares every six months after the listing is achieved, fully released 36 months thereafter.

As at December 31, 2002, 971,500 shares (2001 - 1,670,200 shares) remained in escrow.

WILDCAT EXPLORATION LTD.

Notes to Financial Statements (continued)

Years ended December 31, 2002 and 2001

6. Capital stock (continued):

(h) Per share amounts:

The basic loss per share is calculated using the weighted average number of shares outstanding being 8,331,315 (2001 - 6,827,626). The dilution created by options and warrants has not been reflected in the per share amounts as the effect would be anti-dilutive.

7. Income taxes:

(a) Flow-through shares:

In 2001, the company issued flow-through shares in the amount of \$82,800, excluding share issue costs, to finance eligible Canadian exploration expenditures. The resource expenditure deductions for income tax purposes related to exploration activities are renounced to investors in accordance with income tax legislation, and as a result tax deductibility of these costs are not available to the company.

As at December 31, 2002 and 2001 the full subscription value of the flow-through shares had been renounced to the shareholders, of which nil (2001 - \$82,800) of eligible Canadian development and exploration expenditures had not yet been expended by the company. Accounts receivable at December 31, 2001 of \$82,400 was restricted for this purpose.

(b) Canadian development and exploration expenditures:

As at December 31, 2002, the company had \$951,000 (2001 - \$786,000) of unused Canadian exploration and development expenses available to offset future taxable income of the company. The tax benefit of these expenses carry forward indefinitely.

(c) Losses:

The company has non-capital tax losses available for carry forward to reduce future year taxable income totaling \$1,030,000 expiring as follows:

2005	\$	36,000
2006		57,000
2007		305,000
2008		378,000
2009		254,000

The company has not recorded in its accounts the potential income tax benefit that may be derived from the tax losses due to the uncertainty that the benefits will be realized.

WILDCAT EXPLORATION LTD.

Notes to Financial Statements (continued)

Years ended December 31, 2002 and 2001

7. Income taxes (continued):

- (d) Income tax recovery differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 44.1% (2001 - 40.0%) to net loss. The reasons for the differences are as follows:

	2002	2001
Computed tax recovery	\$ (325,400)	\$ (161,100)
Adjustment to tax pools	135,200	194,700
Resource allowance	26,500	44,700
Effect of capital loss	63,800	–
Effect of rate increase	(18,200)	–
	(118,100)	78,300
Valuation allowance	118,100	(78,300)
	\$ –	\$ –

The components of the company's net future income tax asset at December 31, 2002 and 2001 are as follows:

	2002	2001
Future income tax assets:		
Tax losses	\$ 454,500	\$ 360,000
Share issue costs	70,900	131,000
Capital losses	63,800	–
Future income tax asset	589,200	491,000
Future income tax liability:		
Mineral exploration properties	(295,100)	(315,000)
	294,100	176,000
Valuation allowance	(294,100)	(176,000)
Net future income tax asset	\$ –	\$ –

8. Related party transactions:

The following is a listing of related party transactions and balances not otherwise disclosed in these financial statements:

- Management fees were charged by a company owned by a director of the company of \$36,000 (2001 - \$36,000).
- Geological services purchased from a company owned by a director of the company of \$84,000 (2001 - \$84,000).

WILDCAT EXPLORATION LTD.

Notes to Financial Statements (continued)

Years ended December 31, 2002 and 2001

8. Related party transactions (continued):

- During fiscal 2001, the company borrowed \$50,000 from a shareholder who is also a director. The loan is non-interest bearing and was repaid in full subsequent to year end.
- During fiscal 2002, the company borrowed \$61,250 from a shareholder who is also a director. \$31,250 was repaid in 2002 with \$30,000 outstanding as at December 31, 2002. Interest is being accrued at 10%.
- The company had entered into an agreement with a director of the company to rent a building premises for \$3,000 per month. The lease began February 1, 2001 and expired on February 28, 2003. Included in accounts payable and accrued liabilities is \$16,050 relating to this agreement.
- Included in accounts payable and accrued liabilities is \$112,319 (2001 - \$50,000) owing to a director for services.
- During fiscal 2002, consulting fees were charged by a director of the company of \$6,385.

All transactions approximate fair market value.

9. Financial instruments:

The carrying value of cash and cash equivalents, accounts receivable, grant receivable, accounts payable and accrued liabilities and shareholder loan approximates their fair value since these items fall due in the short term.

10. Commitments:

- (a) The company has committed to payments under operating leases for building and equipment as follows:

2003	\$	15,809
2004		3,809
2005		2,309
2006		192

- (b) In December 2001, the company signed a letter of intent to acquire all of the issued and outstanding shares of Harmony Gold (Canada) Inc. On October 16, 2002, this agreement was terminated.