

# Auditors' Report

To the Shareholders of  
**Royal Standard Minerals Inc.**

We have audited the consolidated balance sheets of **Royal Standard Minerals Inc.** as at January 31, 2003 and 2002 and the consolidated statements of exploration properties, operations and deficit and cash flows for each of the years in the three year period ended January 31, 2003. These consolidated 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 auditing standards generally accepted in Canada and in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance as to 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 January 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three year period ended January 31, 2003 in accordance with Canadian generally accepted accounting principles.



Toronto, Canada  
April 17, 2003

Grant Thornton LLP  
Chartered Accountants

## Comments by Auditors on United States of America-Canada Reporting Difference

United States of America reporting standards require the addition of an explanatory paragraph when the financial statements are affected by conditions and events that cast doubt on the company's ability to continue as a going concern, such as those described in note 1 to the financial statements. Although we conducted our audit in accordance with both United States of America and Canadian generally accepted auditing standards, our report to the shareholders dated April 17, 2003 is expressed in accordance with Canadian reporting standards which do not permit a reference to such conditions and events in the auditor's report when these are adequately disclosed in the financial statements.



Toronto, Canada  
April 17, 2003

Grant Thornton LLP  
Chartered Accountants

**Royal Standard Minerals Inc.**  
**Consolidated Balance Sheets**

(Expressed in United States Dollars)

January 31

2003

2002

**Assets**

Current

Cash and cash equivalents	\$ 283,030	\$ 554,925
Funds held in trust (Note 3)	75,000	-
Marketable securities (Note 4)	8,000	47,000
Receivables	<u>11,723</u>	<u>18,043</u>
	377,753	619,968
Exploration properties (Note 5)	781,039	113,078
Equipment (Note 6)	<u>53,688</u>	<u>-</u>
	\$ <u>1,212,480</u>	\$ <u>733,046</u>

**Liabilities**

Current

Payables and accruals	\$ <u>82,300</u>	\$ <u>45,905</u>
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**Shareholders' Equity**

Capital stock (Note 7)	6,527,565	5,667,723
Contributed surplus (Note 7)	1,425,413	1,425,413
Deficit	<u>(6,822,798)</u>	<u>(6,405,995)</u>
	<u>1,130,180</u>	<u>687,141</u>
	\$ <u>1,212,480</u>	\$ <u>733,046</u>

The Company and operations (Note 1)  
Commitments (Note 5)

On behalf of the Board

"Roland Larsen" Director

"Kimberly L. Koerner" Director

See accompanying notes to the consolidated financial statements.

**Royal Standard Minerals Inc.**  
**Consolidated Statements of Exploration Properties**

(Expressed in United States Dollars)

	Opening Balance	Additions	Written off	Closing Balance
<b>Year Ended January 31, 2003</b>				
Gold Wedge Project	\$ 14,821	\$ 166,248	\$ -	\$ 181,069
Manhattan Project	87,313	49,243	-	136,556
Ruby Ridge Project	4,007	23,440	-	27,447
Como Project	-	52,132	-	52,132
Railroad Project	-	70,983	-	70,983
Pinon Project	-	299,456	-	299,456
Other	<u>6,937</u>	<u>6,459</u>	<u>-</u>	<u>13,396</u>
	<u>\$ 113,078</u>	<u>\$ 667,961</u>	<u>\$ -</u>	<u>\$ 781,039</u>

**Year Ended January 31, 2002**

Gold Wedge Project	\$ -	\$ 14,821	\$ -	\$ 14,821
Manhattan Project	-	87,313	-	87,313
Minnesota-Duluth Project	15,500	9,530	25,030	-
Ruby Ridge Project	-	4,007	-	4,007
Simba Project	33,880	-	33,880	-
Other	<u>-</u>	<u>6,937</u>	<u>-</u>	<u>6,937</u>
	<u>\$ 49,380</u>	<u>\$ 122,608</u>	<u>\$ 58,910</u>	<u>\$ 113,078</u>

**Year Ended January 31, 2001**

Bend Project	\$ -	\$ 19,717	\$ 19,717	\$ -
Bousquet and Chibex Properties	872,068	-	872,068	-
Minnesota-Duluth Project	-	15,500	-	15,500
Pinon Project	1,502,719	27,188	1,529,907	-
Simba Project	-	33,880	-	33,880
Victoria East Project	75,070	-	75,070	-
Other	<u>500</u>	<u>-</u>	<u>500</u>	<u>-</u>
	<u>\$ 2,450,357</u>	<u>\$ 96,285</u>	<u>\$ 2,497,262</u>	<u>\$ 49,380</u>

See accompanying notes to the consolidated financial statements.

**Royal Standard Minerals Inc.**  
**Consolidated Statements of Operations and Deficit**

(Expressed in United States Dollars)

Years Ended January 31	2003	2002	2001
<b>Revenue</b>			
Interest	\$ _____ -	\$ <u>10,332</u>	\$ <u>8,282</u>
<b>Expenses</b>			
General and administrative	294,083	59,830	70,696
General exploration	27,752	84,860	(13,538)
Depreciation	<u>8,763</u>	<u>-</u>	<u>-</u>
	<u>330,598</u>	<u>144,690</u>	<u>57,158</u>
<b>Loss before the following</b>	(330,598)	(134,358)	(48,876)
Recovery of advances to related company previously written off (Note 4)	-	479,340	-
Write off of exploration properties	-	(58,910)	(2,497,262)
Recovery of (write down of) marketable securities	(39,000)	11,000	(41,477)
Repayment of interest (Note 4)	(67,117)	-	-
Foreign exchange (loss) gain	<u>19,912</u>	<u>(1,424)</u>	<u>(9,877)</u>
<b>Net (loss) earnings before income taxes</b>	(416,803)	295,648	(2,597,492)
<b>Income taxes (Note 10)</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net (loss) earnings</b>	\$ <u>(416,803)</u>	\$ <u>295,648</u>	\$ <u>(2,597,492)</u>
<b>Earnings (loss) per common share (Note 9)</b>			
Basic	\$ <u>(0.02)</u>	\$ <u>0.02</u>	\$ <u>(0.15)</u>
Diluted	\$ <u>(0.02)</u>	\$ <u>0.01</u>	\$ <u>(0.15)</u>
<b>Deficit at beginning of year</b>	\$ (6,405,995)	\$ (6,701,643)	\$ (4,104,151)
<b>Net (loss) earnings</b>	<u>(416,803)</u>	<u>295,648</u>	<u>(2,597,492)</u>
<b>Deficit at end of year</b>	\$ <u>(6,822,798)</u>	\$ <u>(6,405,995)</u>	\$ <u>(6,701,643)</u>

See accompanying notes to the consolidated financial statements.

**Royal Standard Minerals Inc.**  
**Consolidated Statements of Cash Flows**

(Expressed in United States Dollars)

Years Ended January 31

2003

2002

2001

**Increase (decrease) in cash and cash equivalents**

**Operating activities**

Net (loss) earnings	\$ (416,803)	\$ 295,648	\$ (2,597,492)
Operating items not involving cash			
Depreciation	8,763	-	-
Write off of exploration properties		58,910	2,497,262
Write down of (recovery of)			
marketable securities	39,000	(11,000)	41,477
Decrease (increase) in receivables	6,320	(3,809)	(3,092)
Increase (decrease) in payables and accruals	36,395	13,004	(28,543)
	<u>(326,325)</u>	<u>352,753</u>	<u>(90,388)</u>

**Financing activity**

Increase in funds held in trust	(75,000)	-	-
Issue of common shares, net of issue costs	688,717	123,052	377,614
	<u>613,717</u>	<u>123,052</u>	<u>377,614</u>

**Investing activities**

Exploration properties	(496,836)	(122,608)	(96,285)
Purchase of equipment	(62,451)	-	-
	<u>(559,287)</u>	<u>(122,608)</u>	<u>(96,285)</u>

**Cash and cash equivalents**

Net (decrease) increase	(271,895)	353,197	190,941
Beginning of year	554,925	201,728	10,787
End of year	<u>\$ 283,030</u>	<u>\$ 554,925</u>	<u>\$ 201,728</u>

**Supplemental cash flow information**

Cash and cash equivalent consists of:

Cash	\$ 94,540	\$ 403,002	\$ 8,839
Term deposits	188,490	151,923	192,890
	<u>\$ 283,030</u>	<u>\$ 554,925</u>	<u>\$ 201,728</u>

Interest paid	\$ -	\$ -	\$ -
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Income taxes paid	\$ -	\$ -	\$ -
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Non-cash financing and investing activity:

Issue of common shares for exploration properties	\$ 171,125	\$ -	\$ -
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See accompanying notes to the consolidated financial statements.

# **Royal Standard Minerals Inc.**

## **Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

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### **1. The Company and operations**

Royal Standard Minerals Inc. (the "Company") is a publicly held company, engaged in the acquisition, exploration and development of resource properties. The Company is continued under the New Brunswick Business Corporations Act and its common shares are listed on the TSX Venture Exchange and traded on the OTC Bulletin Board.

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

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

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### **2. Summary of significant accounting policies**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and its wholly-owned subsidiaries, Southeastern Resources Inc., Pinon Exploration Corporation Standard Energy Inc., and Manhattan Mining Co., all United States companies.

A summary of the differences between accounting principles generally accepted in Canada ("Canadian GAAP") and those generally accepted in the United States ("US GAAP") which affect the Company is contained in Note 13.

#### **Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
(Expressed in United States Dollars)  
Years Ended January 31, 2003, 2002 and 2001

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**2. Summary of significant accounting policies (continued)**

**Cash and cash equivalents**

Cash and cash equivalents includes cash and term deposits at Canadian and United States financial institutions.

**Equipment**

Equipment is recorded at cost less accumulated depreciation. Depreciation is provided using the declining balance method using the following rates:

Exploration equipment	- 30%
Office equipment	- 20%

**Exploration properties**

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

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

**Stock-based compensation plans**

Effective February 1, 2002, the Company adopted the new recommendations of the CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. This section established standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. These new recommendations require that compensation for all awards made to non-employees and certain awards made to employees be measured and recorded in the financial statements at fair value. This section also sets out a fair value based method of accounting for stock options issued to employees and applies to awards granted on or after fiscal years beginning January 1, 2002.

The Company, as permitted by Section 3870, has chosen not to use the fair value method to account for stock-based employee compensation plans, but to disclose pro-forma information for options granted after February 1, 2002. The Company records no compensation expense when options are issued to employees. Any consideration paid by employees on the exercise of the options is credited to capital stock.

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
(Expressed in United States Dollars)  
Years Ended January 31, 2003, 2002 and 2001

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**2. Summary of significant accounting policies (continued)**

**Income taxes**

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

**Earnings (loss) per common share**

Basic earnings (loss) per share is computed by dividing the earnings (loss) for the period by the weighted average number of common shares outstanding during the period, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted earnings per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

**Foreign currency translation**

The Company uses the United States Dollar as its reporting currency, as the majority of its transactions are denominated in this currency and the operations of its subsidiaries are considered to be of an integrated nature.

Monetary assets and liabilities of the parent company denominated in Canadian funds are translated into United States funds at period end rates of exchange. Other assets and liabilities and capital stock of the parent company are translated at historical rates. Revenues and expenses of the parent company are translated at the average exchange rate for the period. Gains and losses on foreign exchange are recorded in operations.

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

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**3. Funds held in trust**

On April 17, 2002, the Company entered into an agreement with an unrelated party (the "Lender") to obtain a \$5,000,000 financing facility. The agreement stipulated that the Company deposit with the Lender an interest earning refundable contingency fee of 1.5% of the facility (\$75,000) which will be held in trust until the loan is advanced.

The agreement's closing date originally set to June 30, 2002, was later extended to June 17, 2003. If this agreement is closed on or before May 1, 2003, the Lender will disburse the funds to the Company, net of closure fees of 3.5% of the facility (\$175,000). In addition, the Company will issue 1,000,000 share purchase warrants to the Lender. Each warrant will entitle the Lender to acquire one common share of the Company. The price of the warrants will be set, based upon the 10 day moving average of the stock price prior to the closing date and will have a two year term from the date of closing.

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**4. Sharpe Resources Corporation**

**Marketable securities**

Marketable securities consist of common shares of Sharpe Resources Corporation ("Sharpe Resources") a publicly held Canadian company, engaged in the exploration for and production of petroleum and natural gas properties in the United States. Sharpe Resources is considered to be related to the Company because of common management.

The shares are carried at the lower of cost and quoted market values.

**Advances**

At January 31, 2001, advances to Sharpe Resources amounted to \$476,594. The advances, which were unsecured and bore interest at prime plus 2% per annum, were fully written off in fiscal 1999, having been written down in previous years.

In fiscal 2002, the Company recovered \$479,340 from Sharpe Resources representing the outstanding balance plus accrued interest which recovery was recorded in the operations for that year.

In fiscal 2003, the Company agreed to repay the interest collected from Sharpe Resources in connection with the \$479,340 recovered in fiscal 2002. The interest amounted to \$67,117 of which \$31,000 has been repaid. The balance of \$36,117 at January 31, 2003 has been included in payables and accruals.

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

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**5. Exploration properties**

**Nevada Projects**

In fiscal 2002 and 2003, the Company entered into certain option agreements to purchase up to 100% interests in patented and unpatented lode mining claims in Nye, Elko and Como-Lyon Counties, Nevada. Details of the option agreements are as follows:

<u>Project</u>	<u>Required Cash Payments to Optionors</u>	<u>Royalty</u>	<u>Exercise of Option</u>
Gold Wedge Nye County	Commencing in fiscal 2002. \$5,000 each in first two years; \$10,000 in third year, \$15,000 in fourth year and \$20,000 each in fifth and sixth years	3% NSR	July 2006 - \$200,000
Manhattan Nye County	Commencing in fiscal 2002. \$1,000 per month from August 2001 to August 2002; \$2,000 per month from September 2002 to July, 2006.	5% NSR	August 2006 - \$500,000
Ruby Ridge Elko County	Commencing in fiscal 2002. \$34,000 from August 2001 to August, 2005.	2.5% NSR	August 2006 - \$400,000
Como Como-Lyon County	Commencing in fiscal 2003. \$25,000 in years one and two covering years three and four, \$20,000 in year five \$25,000 in year six	4% NSR	May 2008 - \$1,000,000
Railroad Elko County	Commencing in fiscal 2003. \$15,000 in the first year and increases by \$5,000 each of the next six years	5% NSR	August 2008 - \$2,000,000

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

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**5. Exploration properties (continued)**

**Pinon Project - Cord Lease**

In August 2002, the Company entered into a mining lease agreement to lease certain properties located in Elko County, Nevada for a period of five years. The lessors will retain a 5% net smelter royalty with no option to purchase.

**Pinon Project - Tomera Lease**

In August 2002, the Company entered into a mining lease agreement to lease certain properties located in Elko County, Nevada for a period of seven years. The lessor will retain a 5% net smelter royalty.

In addition, the Company entered into an irrevocable lease agreement with the surface and minerals rights owners of the Pinon Project properties.

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**6. Equipment**

	<u>2003</u>	<u>2002</u>
<b>Cost</b>		
Exploration equipment	\$ 50,346	\$ -
Office equipment	<u>12,105</u>	<u>-</u>
	<u>62,451</u>	<u>-</u>
<b>Accumulated depreciation</b>		
Exploration equipment	7,552	-
Office equipment	<u>1,211</u>	<u>-</u>
	<u>8,763</u>	<u>-</u>
<b>Net carrying value</b>		
Exploration equipment	42,794	-
Office equipment	<u>10,894</u>	<u>-</u>
	<u>\$ 53,688</u>	<u>\$ -</u>

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

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**7. Capital stock**

**Authorized:**

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

<b>Common shares issued</b>	<u>Shares</u>	<u>Amount</u>
Outstanding at January 31, 2000	20,072,792	\$ 6,592,470
Shares issued for cash, less share issue costs of \$54,246	<u>3,043,667</u>	<u>377,614</u>
Outstanding at January 31, 2001	23,116,459	6,970,084
Shares issued for cash on exercise of warrants	951,494	123,052
Cancellation of shares held in escrow	<u>(4,836,615)</u>	<u>(1,425,413)</u>
Outstanding at January 31, 2002	19,231,338	5,667,723
Shares issued for cash less share issue costs of \$ 55,258	7,000,000	600,427
Shares issued for cash on exercise of stock options	910,000	88,290
Shares issued for interest in Pinon Project	<u>1,000,000</u>	<u>171,125</u>
Outstanding at January 31, 2003	<u>28,141,338</u>	<u>\$ 6,527,565</u>

In November 2001, 4,836,615 escrowed common shares of the Company owned by Sharpe Resources were cancelled under the terms of a 1996 escrow agreement. Upon the cancellation \$1,425,413 was transferred from common stock to contributed surplus.

On September 18, 2002, the company issued 1,000,000 of its common shares to an unrelated party, in exchange for the vendor's 30 % interest in the leases of the Pinon Project exploration properties. The issuance of these shares is considered a non-monetary exchange transaction, and the fair value of the Company's share price at the date of issuance was used as the basis to account for the value of the acquisition.

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**8. Common share options**

Under the Company's stock option plan (the "Option Plan"), the directors of the Company can grant options to acquire common shares of the Company to directors, employees and others who provide ongoing services to the Company. Exercise prices cannot be less than the closing price of the Company's shares on the trading day preceding the date of grant and the maximum term of any option cannot exceed ten years.

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

**8. Common share options (continued)**

The number of common shares under option at any time under the Option Plan or otherwise cannot exceed 4,000,000 nor more than 5% of the then outstanding common shares of the Company for any optionee. In addition, options granted to insiders of the Company cannot exceed more than 10% of the then outstanding common shares of the Company. The options vest when granted.

	Number of Common Shares			Weighted Average Exercise Price		
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Outstanding at beginning of year	2,385,000	2,385,000	1,790,000	\$ 0.18	\$ 0.17	\$ 0.15
Granted during year	1,615,000	1,410,000	595,000	\$ 0.32	\$ 0.17	\$ 0.23
Exercised during year	(910,000)	-	-	\$ 0.16	\$ -	\$ -
Cancelled or expired during year	-	(1,410,000)	-	\$ -	\$ 0.15	\$ -
Outstanding at end of year	<u>3,090,000</u>	<u>2,385,000</u>	<u>2,385,000</u>	\$ 0.26	\$ 0.18	\$ 0.17

Exercise prices are in Canadian dollars.

At January 31, 2003, options to acquire 595,000 common shares of the Company at a price of Canadian \$0.23 per share until May 2005, options to acquire 880,000 common shares of the Company at a price of Canadian \$0.17 per share until May 2006, options to acquire 960,000 common shares of the Company at a price of Canadian \$0.26 per share until April 2007 and options to acquire 655,000 common shares of the Company at a price of Canadian \$0.40 per share until May 2007 were outstanding.

**Stock option compensation adjustment**

The Company applies the intrinsic value based method of accounting for stock-based compensation awards to employees and accordingly no compensation cost is recognized. Had stock-based compensation for the 1,615,000 options granted to employees under the Plan since February 1, 2002 been determined on the basis of fair value at the date of grant in accordance with the fair value method of accounting for stock-based compensation, the Company's net loss and pro forma net loss per share for the year ended December 31, 2002 would have been as follows:

Net loss for the year ended January 31, 2003	\$ 416,803
Unrecorded stock option compensation adjustment	<u>237,000</u>
Pro forma net loss for the year ended January 31, 2003	\$ <u>653,803</u>
Pro forma basic and diluted loss per share	\$ <u>0.03</u>

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

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**8. Common share options (continued)**

For purposes of pro forma disclosures, the following assumptions were used under the Black-Scholes option pricing model: dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 2.50%; and, an expected average life of 4.84 years.

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**9. Per share amounts**

The weighted average number of common shares outstanding in 2003, 2002 and 2001 used in computing basic earnings (loss) per share were 25,537,033, 19,140,099 and 17,295,565 respectively.

Due to the losses in 2003 and 2001, no diluted loss per share is provided as the inclusion of share purchase options outstanding at January 31, 2003 and 2001 and warrants outstanding at January 31, 2001 would be anti-dilutive. In 2002, the number of shares used in the calculation of diluted earnings per share was 19,140,099, which excluded the potential exercise of common share purchase options and warrant because of their anti-dilutive effect due to the exercise prices exceeding the average market price for the period.

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

**10. Income taxes**

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net (loss) earnings before income taxes reflected in consolidated statements of operations	\$ <u>(416,803)</u>	\$ <u>295,648</u>	\$ <u>(2,597,492)</u>
Expected income tax (recovery) expense	\$ (163,000)	\$ 124,000	\$ (1,159,000)
Recovery of write downs of advances to related company	-	(201,000)	-
Deductible share issue costs	(19,000)	(46,000)	(49,000)
Statutory rate difference - Canada/U.S.	-	-	(5,000)
Valuation allowance	<u>182,000</u>	<u>123,000</u>	<u>1,213,000</u>
Income tax (recovery) expense	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

The following table reflects future income tax assets at January 31, 2003 and 2002.

	<u>2003</u>	<u>2002</u>
Unclaimed non-capital losses	\$ 1,029,000	\$ 1,101,000
Excess of unclaimed resource pools over carrying value of exploration properties	1,480,000	1,580,000
Unclaimed share issue costs	<u>29,000</u>	<u>15,000</u>
	2,538,000	2,696,000
Valuation allowance	<u>2,538,000</u>	<u>2,696,000</u>
Future income tax assets recognized	\$ <u>-</u>	\$ <u>-</u>

At January 31, 2003, the Company had unclaimed Canadian and foreign resource pools of \$1,450,000, unclaimed share issue costs of \$74,000 and unclaimed non-capital losses carried forward of \$1,210,000. Of the non-capital losses, \$212,000 expire in fiscal 2005 and \$301,000 expire in fiscal 2006.

At January 31, 2003, the Company's United States subsidiaries had unclaimed resource pools of \$2,340,000 and unclaimed non-capital losses carried forward of \$1,410,000. None of these losses expire in the next three years.

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

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**11. Financial instruments**

At January 31, 2003, the Company's financial instruments consisted of cash and cash equivalents, common shares of Sharpe Resources, receivables and payables and accruals. The shares of Sharpe Resources have been written down to market value. The Company estimates that the fair value of its other financial assets and liabilities approximates their carrying values due to their short term nature.

It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

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**12. Related party transactions**

Transactions with a related party were as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Office space rent paid to a company related to an officer of the Company	\$ <u>29,670</u>	\$ <u>-</u>	\$ <u>-</u>

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**13. Differences between Canadian GAAP and US GAAP**

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP. These principles, as they pertain to the Company's consolidated financial statements differ from US GAAP as follows:

As indicated in Note 1, the Company is in the process of exploring its exploration properties and has not yet determined whether these properties contain ore reserves. Accordingly, under US GAAP, the Company would be characterized as a "development stage enterprise".

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

**13. Differences between Canadian GAAP and US GAAP (continued)**

Under US GAAP, development stage enterprises are required to provide cumulative from inception information relating to changes in capital stock, which information is presented hereunder in relation to the Company's common stock. Inception has been deemed to be June 26, 1996, the date on which the Company acquired all of the outstanding common shares of Southeastern Resources Inc. ("SRI") which acquisition was accounted for as a reverse takeover of the Company by SRI because immediately after the acquisition, the former shareholders of SRI owned approximately 94% of the then outstanding shares of the Company.

	<u>Shares</u>	Amount Under Canadian GAAP	Amount Under US GAAP
Issued to former shareholders of SRI	8,154,614	\$ 2,045,717	\$ 1,318,566
Held by other shareholders	<u>488,041</u>	<u>467,467</u>	<u>467,467</u>
Outstanding at June 26, 1996	8,642,655	2,513,184	1,786,033
Issued for exploration properties	1,400,000	667,204	667,204
Issued for services	200,000	126,465	126,465
Issued on cash on exercise of warrants	580,577	361,823	361,823
Issued for cash	<u>500,000</u>	<u>329,936</u>	<u>329,936</u>
Outstanding at January 31, 1997	11,323,232	3,998,612	3,271,461
Issued for exploration properties	200,000	134,250	134,250
Flow-through shares issued for cash	300,000	216,763	216,763
Issued for cash, less issue costs of \$481,480	7,228,066	2,129,061	2,129,061
Issued for services	<u>70,000</u>	<u>58,125</u>	<u>58,125</u>
Outstanding at January 31, 1998	19,121,298	6,536,811	5,809,660
Share issue costs	<u>-</u>	<u>(5,919)</u>	<u>(5,919)</u>
Outstanding at January 31, 1999	19,121,298	6,530,892	5,803,741
Issued for cash, less issue costs of \$4,092	<u>951,494</u>	<u>61,578</u>	<u>61,578</u>
Outstanding at January 31, 2000	20,072,792	6,592,470	5,865,319
Issued for cash, less issue costs of \$54,246	<u>3,043,667</u>	<u>377,614</u>	<u>377,614</u>
Outstanding at January 31, 2001	23,116,459	6,970,084	6,242,933
Issued for cash on exercise of warrants	951,494	123,052	123,052
Cancellation of shares held in Escrow	<u>(4,836,615)</u>	<u>(1,425,413)</u>	<u>(1,279,287)</u>
Outstanding at January 31, 2002	19,231,338	5,667,723	5,086,698
Issued for cash less issue costs of \$ 55,258	7,000,000	600,427	600,427
Issued for cash on exercise of stock options	910,000	88,290	88,290
Issue for exploration properties	<u>1,000,000</u>	<u>171,125</u>	<u>171,125</u>
Outstanding at January 31, 2003	<u>28,141,338</u>	<u>\$ 6,527,565</u>	<u>\$ 5,946,540</u>

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

**13. Differences between Canadian GAAP and US GAAP (continued)**

For Canadian GAAP purposes, the Company accounts for its stock compensation plan as described in Note 2 under which no compensation expense was recognized for the years ended January 31, 2003, 2002 and 2001. For US GAAP purposes, the Company accounts for its stock based compensation plan under APB Opinion No. 25 and related interpretations under which no compensation was recognized for the years ended January 31, 2003, 2002 and 2001. Under US GAAP pro forma net loss relating to stock option grants in 2003 and 2001 would have increased by \$237,000 and \$97,000, respectively.

Under US GAAP the income tax calculations would be at enacted and not substantially enacted rates. There is no reportable difference from Canadian GAAP as no future income tax assets have been recognized.

Under Canadian GAAP, the Company accounts for its exploration properties as described in Note 2, while under US GAAP, such costs cannot be capitalized and are expensed as incurred.

Had the Company's consolidated balance sheets as at January 31, 2003 and 2002 been prepared using US GAAP, such balance sheets would be presented as follows:

	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 283,030	\$ 554,925
Funds held in trust	75,000	-
Marketable securities	8,000	47,000
Receivables	<u>11,723</u>	<u>18,043</u>
	377,753	619,968
Equipment	<u>53,688</u>	-
	<u>\$ 431,441</u>	<u>\$ 619,968</u>
<b>Liabilities</b>		
Current		
Payables and accruals	\$ <u>82,300</u>	\$ <u>45,905</u>
<b>Shareholders' Equity</b>		
Capital stock	5,946,540	5,086,698
Contributed surplus	1,279,287	1,279,287
Deficit accumulated during development stage	<u>(6,876,686)</u>	<u>(5,791,922)</u>
	<u>349,141</u>	<u>574,063</u>
	<u>\$ 431,441</u>	<u>\$ 619,968</u>

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

**13. Differences between Canadian GAAP and US GAAP (continued)**

Had the Company's consolidated statements of operations and deficit been prepared using US GAAP, such statements would have included cumulative from inception amounts in addition to amounts for the years ended January 31, 2003, 2002 and 2001.

Such statements under Canadian GAAP are as follows:

	Cumulative from <u>Inception</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Revenue</b>				
Interest	\$ 18,614	\$ -	\$ 10,332	\$ 8,282
<b>Expenses</b>				
General and administrative	1,471,237	294,083	59,830	70,696
General exploration	152,051	27,752	84,860	(13,538)
Depreciation	8,763	8,763	-	-
	<u>1,632,051</u>	<u>330,598</u>	<u>144,690</u>	<u>57,158</u>
<b>Loss before the following</b>	(1,613,437)	(330,598)	(134,358)	(48,876)
Recovery of (write downs of)				
advances to related company	(75,506)	-	479,340	-
Write off of exploration properties	(3,359,243)	-	(58,910)	(2,497,262)
Loss on disposal of exploration properties	(474,187)	-	-	-
Recovery of (write down of)				
marketable securities	(407,105)	(39,000)	11,000	(41,477)
Gain on disposal of marketable securities	47,988	-	-	-
Repayment of interest	(67,117)	(67,117)	-	-
Foreign exchange gain (loss)	<u>(133,451)</u>	<u>19,912</u>	<u>(1,424)</u>	<u>(9,877)</u>
<b>Net (loss) earnings before income taxes</b>	(6,082,058)	(416,803)	295,648	(2,597,492)
<b>Income taxes</b>	-	-	-	-
<b>Net (loss) earnings</b>	\$ <u>(6,082,058)</u>	\$ <u>(416,803)</u>	\$ <u>295,648</u>	\$ <u>(2,597,492)</u>
<b>Earnings (loss) per common share</b>				
Basic	\$ <u>(0.02)</u>	\$ <u>0.01</u>	\$ <u>(0.12)</u>	
Diluted	\$ <u>(0.02)</u>	\$ <u>0.01</u>	\$ <u>(0.12)</u>	

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

(Expressed in United States Dollars)

Years Ended January 31, 2003, 2002 and 2001

**13. Differences between Canadian GAAP and US GAAP (continued)**

	Cumulative from <u>Inception</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Deficit at beginning of period</b>	\$ -	\$ (6,405,995)	\$ (6,701,643)	\$ (4,104,151)
1997 related party transaction adjustment on issue of common shares for common shares of SRI	(740,740)	-	-	-
Net earnings (loss)	<u>(6,082,058)</u>	<u>(416,803)</u>	<u>295,648</u>	<u>(2,597,492)</u>
<b>Deficit at end of period</b>	\$ <u>(6,822,798)</u>	\$ <u>(6,822,798)</u>	\$ <u>(6,405,995)</u>	\$ <u>(6,701,643)</u>

Changes required to conform to US GAAP are as follows:

	Cumulative from <u>Inception</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Net (loss) earnings under Canadian GAAP</b>	\$ (6,082,058)	\$ (416,803)	\$ 295,648	\$ (2,597,492)
Adjustment for writedown (recovery) of marketable securities	407,105	39,000	(11,000)	41,477
Adjustment for exploration properties	<u>(781,039)</u>	<u>(667,961)</u>	<u>(63,698)</u>	<u>2,400,977</u>
<b>(Loss) earnings under US GAAP</b>				
Before comprehensive (loss) earnings adjustments	(6,455,992)	(1,045,764)	220,950	(155,038)
Adjustment for writedown (recovery) of marketable securities	<u>(407,105)</u>	<u>(39,000)</u>	<u>11,000</u>	<u>(41,477)</u>
Comprehensive (loss) earnings	\$ <u>(6,863,097)</u>	\$ <u>(1,084,764)</u>	\$ <u>231,950</u>	\$ <u>(196,515)</u>

**Earnings (loss) per common share under US GAAP**

Before comprehensive (loss) earnings a djustments Basic and diluted	\$ <u>0.04</u>	\$ <u>(0.01)</u>	\$ <u>(0.01)</u>	
Comprehensive (loss) earnings Basic and diluted	\$ <u>0.04</u>	\$ <u>(0.01)</u>	\$ <u>(0.01)</u>	
<b>Deficit at beginning of period under US GAAP</b>	\$ -	\$ (5,791,922)	\$ (6,023,872)	\$ (5,827,357)
Charge related to issue of common shares for common shares of SRI under US GAAP	(13,589)	-	-	-
Net earnings (loss) under US GAAP	<u>(6,863,097)</u>	<u>(1,084,764)</u>	<u>231,950</u>	<u>(196,515)</u>
<b>Deficit at end of period under US GAAP</b>	\$ <u>(6,876,686)</u>	\$ <u>(6,876,686)</u>	\$ <u>(5,791,922)</u>	\$ <u>(6,023,872)</u>

**Royal Standard Minerals Inc.**  
**Notes to the Consolidated Financial Statements**

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Years Ended January 31, 2003, 2002 and 2001

**13. Differences between Canadian GAAP and US GAAP (continued)**

Had the Company's consolidated statements of cash flows been prepared using US GAAP, such statements would have included cumulative from inception amounts in addition to amounts for the years ended January 31, 2003, 2002 and 2001.

Such statements under Canadian GAAP are as follows:

	Cumulative from <u>Inception</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Increase (decrease) in cash and cash equivalents</b>				
<b>Operating activities</b>				
Net (loss) earnings	\$ (6,082,058)	\$ (416,803)	\$ 295,648	\$ (2,597,492)
Depreciation	8,763	8,763	-	-
Expenses settled by the issue of common shares	184,590	-	-	-
Write off of exploration properties	3,359,243	-	58,910	2,497,262
Loss on disposal of exploration properties	474,187	-	-	-
Write down of (recovery of) marketable securities	407,105	39,000	(11,000)	41,477
Gain on disposal of marketable securities	(47,988)	-	-	-
Write down of advances to related company	554,846	-	-	-
	<u>(1,141,312)</u>	<u>(369,040)</u>	<u>343,558</u>	<u>(58,753)</u>
Decrease (increase) in receivables	(11,723)	6,320	(3,809)	(3,092)
Increase in advances to related company	(554,846)	-	-	-
Increase (decrease) in payables and accruals	82,300	36,395	13,004	(28,543)
	<u>(1,625,581)</u>	<u>(326,325)</u>	<u>352,753</u>	<u>(90,388)</u>
<b>Financing activity</b>				
Increase in funds held in trust	(75,000)	(75,000)	-	-
Issue of common shares, net of issue costs	4,749,705	688,717	123,052	377,614
	<u>4,674,705</u>	<u>613,717</u>	<u>123,052</u>	<u>377,614</u>
<b>Investing activities</b>				
Exploration properties	(2,348,278)	(496,836)	(122,608)	(96,285)
Purchase of equipment	(62,451)	(62,451)	-	-
Marketable securities	(1,057,976)	-	-	-
Proceeds on disposal of exploration properties	11,747	-	-	-
Proceeds on disposal of marketable securities	690,864	-	-	-
	<u>(2,766,094)</u>	<u>(559,287)</u>	<u>(122,608)</u>	<u>(96,285)</u>
<b>Cash and cash equivalents</b>				
Net increase (decrease)	283,030	(271,895)	353,197	190,941
Beginning of period	-	554,925	201,728	10,787
End of period	<u>\$ 283,030</u>	<u>\$ 283,030</u>	<u>\$ 554,925</u>	<u>\$ 201,728</u>

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**13. Differences between Canadian GAAP and US GAAP (continued)**

Such statements under US GAAP are as follows:

	Cumulative from <u>Inception</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Increase (decrease) in cash and cash equivalents</b>				
<b>Operating activities</b>				
Net (loss) earnings	\$ (6,455,992)	\$ (1,045,764)	\$ 220,950	\$ (155,038)
Depreciation	8,763	8,763	-	-
Expenses settled by the issue of common shares	184,610	-	-	-
Exploration expenditures settled by the issue of common shares	2,277,918	171,125	-	-
Gain on disposal of marketable securities	(47,988)	-	-	-
Write down of advances to related company	<u>554,846</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(3,477,843)</u>	<u>(865,876)</u>	<u>220,950</u>	<u>(155,038)</u>
Decrease (increase) in receivables	(11,723)	6,320	(3,809)	(3,092)
Increase in advances to related company	(554,846)	-	-	-
Increase (decrease) in payables and accruals	<u>82,300</u>	<u>36,395</u>	<u>13,004</u>	<u>(28,543)</u>
	<u>(3,962,112)</u>	<u>(823,161)</u>	<u>230,145</u>	<u>(186,673)</u>
<b>Financing activity</b>				
Increase in funds held in trust	(75,000)	(75,000)	-	-
Issue of common shares, net of issue costs	<u>4,749,705</u>	<u>688,717</u>	<u>123,052</u>	<u>377,614</u>
	<u>4,674,705</u>	<u>613,717</u>	<u>123,052</u>	<u>377,614</u>
<b>Investing activities</b>				
Purchase of equipment	(62,451)	(62,451)	-	-
Marketable securities	(1,057,976)	-	-	-
Proceeds on disposal of marketable securities	<u>690,864</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(429,563)</u>	<u>(62,451)</u>	<u>-</u>	<u>-</u>
<b>Cash and cash equivalents</b>				
Net increase (decrease)	283,030	(271,895)	353,197	190,941
Beginning of period	<u>-</u>	<u>554,925</u>	<u>201,728</u>	<u>10,787</u>
End of period	<u>\$ 283,030</u>	<u>\$ 283,030</u>	<u>\$ 554,925</u>	<u>\$ 201,728</u>