

Planet Exploration Inc.

Consolidated Financial Statements

For the years ended March 31, 2005 and 2004



**KENWAY
MACK
SLUSARCHUK
STEWART_{LLP}**

Chartered Accountants
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AUDITORS' REPORT

To the Shareholders of Planet Exploration Inc.

We have audited the consolidated balance sheets of Planet Exploration Inc. as at March 31, 2005 and 2004 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 audit.

We conducted our audit 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 March 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Kenway Mack Slusarchuk Stewart LLP

Chartered Accountants

Calgary, Alberta
July 20, 2005

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Planet Exploration Inc.
Consolidated Balance Sheets
As at March 31

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$ 7,353,887	\$ 6,728,219
Term deposit	509,639	500,000
Accounts receivable	3,056	701,868
Marketable securities	6,100	6,100
	7,872,682	7,936,187
Mineral properties (Note 3)	3,897,316	3,950,795
Other property and equipment	2,800	-
	\$ 11,772,798	\$ 11,886,982
Liabilities		
Current liabilities		
Accounts payable	\$ 110,178	\$ 299,606
Future income taxes (Note 4)	861,700	839,393
	971,878	1,138,999
Shareholders' Equity		
Common shares (Note 5)	11,319,557	10,893,411
Warrants (Note 5)	489,340	512,040
Contributed surplus	352,667	400,363
Deficit	(1,360,644)	(1,057,831)
	10,800,920	10,747,983
	\$ 11,772,798	\$ 11,886,982

Approved on behalf of the Board:

signed "Darold H. Parker" Director

signed "Salim Jivraj" Director

See accompanying notes to the financial statements

Planet Exploration Inc.
Consolidated Statements of Loss and Deficit
Years Ended March 31

	<u>2005</u>	<u>2004</u>
Interest revenue	\$ 155,307	\$ 57,155
Expenses		
General and administrative	262,227	421,727
Stock-based compensation	-	362,863
Write-down of mineral property (Note 3)	173,586	-
	<u>435,813</u>	<u>784,590</u>
Loss before income taxes	(280,506)	(727,435)
Future income tax (provision) recovery (Note 4)	<u>(22,307)</u>	<u>177,894</u>
Loss for the year	(302,813)	(549,541)
Deficit, beginning of year	<u>(1,057,831)</u>	<u>(508,290)</u>
Deficit, end of year	<u>\$ (1,360,644)</u>	<u>\$ (1,057,831)</u>
Loss per share - basic and diluted	<u>\$ (0.012)</u>	<u>\$ (0.032)</u>
Weighted average number of shares outstanding - basic and diluted	<u>24,852,752</u>	<u>17,022,962</u>

See accompanying notes to the financial statements

Planet Exploration Inc.
Consolidated Statements of Cash Flows
Years Ended March 31

	<u>2005</u>	<u>2004</u>
Operating Activities		
Loss for the year	\$ (302,813)	\$ (549,541)
Items not affecting cash		
Write-down of mineral property	173,586	-
Amortization	318	-
Future income tax	22,307	(177,894)
Stock-based compensation	-	362,863
	<u>(106,602)</u>	<u>(364,572)</u>
Net changes in non-cash working capital items related to operating activities (Note 8)	<u>(144,928)</u>	<u>47,995</u>
	<u>(251,530)</u>	<u>(316,577)</u>
Financing Activities		
Issue of common shares	355,750	7,377,309
Net changes in non-cash working capital items related to financing activities (Note 8)	<u>(62,000)</u>	<u>147,005</u>
	<u>293,750</u>	<u>7,524,314</u>
Investing Activities		
Acquisition of mineral properties	(654,200)	(883,733)
Disposition of mineral properties	530,975	633,353
Acquisition of marketable securities	-	(6,100)
Increase in term deposit	(9,639)	(500,000)
Net changes in non-cash working capital items related to investing activities (Note 8)	<u>716,312</u>	<u>(635,211)</u>
	<u>583,448</u>	<u>(1,391,691)</u>
Increase in cash	625,668	5,816,046
Cash and cash equivalents, beginning of year	<u>6,728,219</u>	<u>912,173</u>
Cash and cash equivalents, end of year	<u><u>\$ 7,353,887</u></u>	<u><u>\$ 6,728,219</u></u>

See accompanying notes to the financial statements

1. NATURE OF OPERATIONS

The Company is in the business of acquiring, exploring and developing mineral properties, both directly and through joint ventures. To date, the Company has not generated significant revenues from operations and is considered to be a development stage company.

These financial statements have been prepared on the assumption that the Company will continue as a going concern and realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The continued operations of the Company are primarily dependent upon its ability to raise exploration financing from equity markets or by selling or optioning its mineral properties. Recovery of the capitalized carrying costs shown for mineral properties will likely require the establishment of economically recoverable reserves, the securing of development financing and profitable production.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of Planet Exploration Inc. and its wholly owned Mexican subsidiary, Minera Planet Exploration, S.A. de S.V. ("Minera").

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

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 reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Foreign currency translation

Foreign currency transactions

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other assets, liabilities and items affecting earnings are translated into Canadian dollars at rates of exchange in effect at the date of the transaction. Gains or losses arising from these foreign currency transactions are included in the determination of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign subsidiary

Minera is considered to be an integrated foreign operation. As a result, the foreign subsidiary's accounts are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the average rate for the year. Gains or losses arising from translation are included in the determination of income.

Marketable securities

Marketable securities are carried at the lower of cost and market value. When market value is below cost, any unrealized loss is charged to income.

Mineral properties

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition and exploration costs are capitalized and deferred until such time as the property is put into production, or the property is disposed of either through sale or abandonment. If put into production, the costs of acquisition and exploration will be written off over the life of the property based on estimated economic reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the acquisition and deferred exploration costs will be written off to operations.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

Management reviews capitalized costs on its mineral properties on a periodic basis and recognizes impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable operations from the property or sale of the property.

Income taxes

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Planet Exploration Inc.
Notes to Consolidated Financial Statements
Years Ended March 31 2005 and 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Flow-through shares

Certain resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. To recognize the forgone tax benefits to the Company, the future income tax liability and the carrying value of the shares issued are adjusted by the effect of the tax benefits renounced to subscribers. Effective March 19, 2004, the future income tax liability is recorded when the expenditures are renounced.

Stock-based compensation

The Company has a stock option plan as described in Note 5(d). Compensation expense and contributed surplus are recorded based on the fair value of the option at the date of grant determined using the Black-Scholes options pricing model.

Per share amounts

Per share amounts are based on the weighted average number 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 that assumes any proceeds received by the Company upon the exercise of in-the-money stock options would be used to purchase, for cancellation, common shares at the average market price for the year.

Cash and cash equivalents

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

3. MINERAL PROPERTIES

The Company's mineral properties are as follows:

				2005	2004
	Acquisition Costs (Net of Recoveries)	Deferred Exploration and Development Costs	Write-down of Capitalized Costs	Total	Total
Red Lake Ontario	\$ 1,707,110	1,636,844	(163,322)	3,180,632	\$ 3,509,028
Mongolia	123,658	424,727	(65,062)	483,323	221,664
Mexico	40,026	193,335	-	233,361	152,416
China	94,079	14,445	(108,524)	-	67,687
	\$ 1,964,873	2,269,351	(336,908)	3,897,316	\$ 3,950,795

Planet Exploration Inc.
Notes to Consolidated Financial Statements
Years Ended March 31 2005 and 2004

3. MINERAL PROPERTIES (continued)

During the year ended March 31, 2004, an election under Section 85 of the Income Tax Act was made in conjunction with the issuance of shares to acquire additional mineral property interests in Red Lake, Ontario. The Red Lake, Ontario balance includes the amount of \$1,032,110 that gives recognition to the related future income tax liability.

Red Lake, Ontario, Canada

Under the terms of an agreement dated October 15, 2002, the Company increased its interest in certain mining claims in the Red Lake Mining District to a 100% interest in consideration of cash payments totalling \$100,000 by December 31, 2002 (which was paid), and the issuance of 3,500,000 shares of the Company by April 15, 2003 (which were issued).

By an agreement dated April 10, 2003, the Company granted options to Goldcorp Inc. to acquire a 60% interest in the Red Lake mining claims for consideration of:

- First option to acquire up to a 50% interest:
 - Cash payments of \$600,000 by April 10, 2004, \$50,000 by April 10, 2005, and \$400,000 by April 10, 2006 (all of which have been received).
 - Exploration expenditures of \$250,000 by April 10, 2004, \$500,000 by April 10, 2005 and \$750,000 by April 10, 2006 (all of which have been made).
- Second option to acquire an additional 10% interest:
 - Cash payment of \$600,000 by May 10, 2006.

On March 22, 2005, Goldcorp Inc. exercised its option to acquire a 50% interest in the Red Lake mining claims.

Mongolia

Under the terms of an agreement dated June 26, 2002, the Company acquired three mineral investigation licenses in Mongolia in consideration of a cash payment of \$15,000(US) and the issuance of 200,000 shares of the Company. One of the mineral investigation licenses expired as of March 31, 2004. By agreement dated February 5, 2003, the Company granted an option to Canadian Shield Resources Inc. to acquire a 50% interest in the mineral investigation licenses in consideration of cash payments, exploration expenditures and the issuance of shares. The Company received \$10,000(US) cash and was issued 50,000 shares of Canadian Shield Resources Inc. In 2004, Canadian Shield Resources Inc. terminated their option. During the year the Company reviewed the above referenced mineral investigation licenses and determined that they were of no further interest to the Company and consequently their carrying value of \$65,062 has been written off.

By agreement dated October 7, 2003, the Company also acquired an exploration license (Ovoot property) in Mongolia in consideration of cash payments totalling \$40,000(US).

Planet Exploration Inc.
Notes to Consolidated Financial Statements
Years Ended March 31 2005 and 2004

3. MINERAL PROPERTIES (continued)

Mexico

Under the terms of an option agreement dated October 16, 2003, the Company has the option to acquire a 100% interest in the Copalquin property in Mexico in consideration of cash payments totalling \$415,000(US) over five years, the issuance by the Company of \$24,000(US) of its shares and by incurring exploration expenditures of \$1,000,000(US) over five years. As at March 31, 2005, the Company has made cash payments of \$65,000 (US), has issued \$24,000 (US) of its shares and has met its requirement to expend a minimum of \$275,000 (US) by July 13, 2005. At the feasibility study stage, the Company is obligated to pay the property owner \$1.00 (US) per ounce of recoverable gold or its equivalent in recoverable silver. The Company is also responsible for a 2.5% Net Smelter Return ("NSR") to the owner and has an option to purchase 1.5% of the NSR for \$1,000,000 (US).

By agreement dated February 13, 2004, the Company granted an option to UC Resources Ltd. to acquire a 50% interest in the Copalquin property in consideration of cash payments of \$440,000(US) over three years and incurring exploration expenditures of \$1,250,000(US) over three years. As at March 31, 2005, the Company has received cash payments of \$90,000 (US) and UC Resources Ltd. has met its requirement to expend a minimum of \$750,000 (US) by July 13, 2005.

In June 2005, the Company granted UC Resources Ltd. the right to acquire 100% of it's interest in the Copalquin property – see Note 11.

China

The Company reviewed the carrying value of its properties in China and determined that the properties were of no further interest to the Company and consequently their carrying value of \$108,524 has been written off.

4. INCOME TAX

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:

	2005	2004
Tax rate	35.0%	39.25%
Computed income tax recovery	(98,100)	(285,518)
Non-deductible stock-based compensation	-	142,424
Tax rate adjustment	(91,193)	-
Current period losses not recognized	37,300	-
Other	-	(34,800)
Valuation Allowance	174,300	-
	<u>\$ 22,307</u>	<u>\$ (177,894)</u>

Planet Exploration Inc.
Notes to Consolidated Financial Statements
Years Ended March 31 2005 and 2004

4. INCOME TAX (continued)

During the year ended March 31, 2004, an election under Section 85 of the Income Tax Act was made in conjunction with the acquisition of additional interests in certain mineral properties. This resulted in the properties acquired having a lower tax value than the consideration paid. Consequently, \$1,032,110 in future income taxes has been recognized in the accounts. See Note 3 for additional information.

At March 31, 2005 the Company has the following accumulated tax losses for utilization in future years. These losses expire on the following dates:

March 31, 2006	\$	68,450
March 31, 2007		52,507
March 31, 2008		14,657
March 31, 2009		34,734
March 31, 2010		214,813
March 31, 2014		113,000
March 31, 2015		106,000
		<u>604,161</u>
	\$	<u>604,161</u>

The components of the net future income tax liability are as follows:

	<u>2005</u>	<u>2004</u>
Net book value of mineral properties in excess of tax value	\$ 1,010,300	\$ 1,201,548
Non-capital losses	(211,600)	(195,512)
Share issue costs	(148,600)	(166,643)
Valuation allowance	211,600	-
Future income tax liability	<u>\$ 861,700</u>	<u>\$ 839,393</u>

5. SHARE CAPITAL

a) 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.

Planet Exploration Inc.
Notes to Consolidated Financial Statements
Years Ended March 31 2005 and 2004

5. SHARE CAPITAL (continued)

b) Common shares issued

	2005		2004	
	# of Shares	Consideration	# of Shares	Consideration
Balance, beginning of year	22,789,190	\$ 10,893,411	11,385,445	\$ 2,204,931
Common shares issued for cash	-	-	4,300,000	5,530,660
Common shares issued upon exercise of warrants	2,270,000	306,450	3,532,945	1,850,404
Common shares issued upon exercise of stock options	200,000	119,696	50,000	5,000
Common shares issued for mineral properties	-	-	3,520,800	1,750,360
Share issue costs	-	-	-	(462,766)
Future income tax effect of share issue costs	-	-	-	181,635
Future income tax effect of renounced expenditures	-	-	-	(166,813)
Balance, end of year	25,259,190	\$ 11,319,557	22,789,190	\$ 10,893,411

On April 1, 2003, 3,500,000 shares were issued in exchange for an interest in a mineral property at a price of \$0.49 per share resulting in deemed proceeds of \$1,715,000. The parties elected under Section 85 of the Income Tax Act that the interests in the mineral property acquired by the Company were acquired at a cost of \$117,529 for income tax purposes.

On December 12, 2003, the Company completed an offering of 4,300,000 units consisting of one common share and one non-transferable common share purchase warrant exercisable at a price of \$2.00 per share until December 15, 2005 for gross proceeds of \$6,020,000. The Company determined the fair value of the warrants to be \$489,340.

On January 29, 2004, the Company issued 20,800 shares in exchange for an interest in a mineral property at a price of \$1.70 per share for deemed proceeds of \$35,360.

On May 2, 2003, 50,000 options with an exercise price of \$0.10 per option were exercised resulting in the issuance of 50,000 shares for gross proceeds of \$5,000.

Planet Exploration Inc.
Notes to Consolidated Financial Statements
Years Ended March 31 2005 and 2004

5. SHARE CAPITAL (continued)

During the year ended March 31, 2004, 3,532,945 warrants were exercised at an average price of \$0.514 per share resulting in the issuance of 3,532,945 shares for gross proceeds of \$1,815,075. The amount of \$35,329 relating to previously recognized stock-based compensation expense was transferred from Contributed Surplus to Share Capital.

On April 4, 2004, 200,000 options were exercised at an average price of \$0.36 per share resulting in the issuance of 200,000 shares for gross cash proceeds of \$72,000. The amount of \$47,696 relating to previously recognized stock-based compensation expense was transferred from Contributed Surplus to Share Capital.

On June 4, 2004, warrants with an exercise price of \$0.125 per share were exercised resulting in the issuance of 2,270,000 shares for gross cash proceeds of \$283,750. The amount of \$22,700 was also transferred from Warrants to Share Capital.

c) Warrants

	<u>2005</u>		
	<u># of Warrants</u>	<u>Consideration</u>	<u># of Warrants</u>
Balance, beginning of the year	6,570,000	\$ 512,040	5,802,945
Issued during the year	-	-	4,300,000
Exercised	<u>(2,270,000)</u>	<u>(22,700)</u>	<u>(3,532,945)</u>
Balance, end of the year	<u>4,300,000</u>	<u>\$ 489,340</u>	<u>6,570,000</u>

Details of warrants outstanding at March 31, 2005 are as follows:

<u>Number of Warrants</u>	<u>Exercise price</u>	<u>Expiry date</u>
4,300,000	\$ 2	December 15, 2005

d) Stock option plan

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 2,200,000 common shares. The exercise price of each option equals the market price of the Company's stock on the date of the grant (less permitted discount, if any) and an option's maximum term is five years.

Planet Exploration Inc.
Notes to Consolidated Financial Statements
Years Ended March 31 2005 and 2004

5. SHARE CAPITAL (continued)

Details of stock options outstanding are as follows:

	2005		2004	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	1,350,000	\$ 0.59	200,000	\$ 0.10
Granted	-	-	1,200,000	0.65
Exercised	<u>(200,000)</u>	<u>0.36</u>	<u>(50,000)</u>	<u>0.10</u>
Balance, end of year	<u>1,150,000</u>	<u>\$ 0.67</u>	<u>1,350,000</u>	<u>\$ 0.59</u>

Number of common shares under option	Exercise price per common share	Weighted average remaining contractual life (years)
50,000	0.10	2.08
500,000	0.60	3.16
500,000	0.70	3.01
<u>100,000</u>	<u>0.75</u>	<u>3.16</u>
<u>1,150,000</u>		

e) Per share amounts

Basic and diluted per share amounts are calculated using the weighted average number of common shares outstanding during the year of 24,852,752 (2004-17,022,962).

The options and warrants outstanding were not included in the computation of diluted loss per share because they were anti-dilutive.

6. RELATED PARTY TRANSACTIONS

The Company incurred \$142,500 (2004 - \$87,000) in legal and consulting fees with two directors and officers of the Company. These fees are measured at the exchange amount and recorded in general and administrative expenses. The Company incurred \$23,370 (2004 - \$11,900) in geological fees with another director and officer of the Company. These fees are measured at the exchange amount and recorded as additions to mineral properties. Accounts payable includes a total of \$10,700 (2004 - \$19,191) owing to related parties.

Planet Exploration Inc.
Notes to Consolidated Financial Statements
Years Ended March 31 2005 and 2004

7. FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, term deposit, accounts receivable and accounts payable approximates their fair value due to the immediate or short term maturity of these instruments.

The quoted market value of the marketable securities at March 31, 2005 was \$12,500 (2004 - \$50,000)

8. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital were comprised of the following:

	<u>2005</u>	<u>2004</u>
Accounts receivable	\$ 698,812	\$ (641,494)
Accounts payable	(189,428)	201,283
Net change	<u>\$ 509,384</u>	<u>\$ (440,211)</u>
Net change by activity:		
Operating	\$ (144,928)	\$ 47,995
Financing	(62,000)	147,005
Investing	716,312	(635,211)
Net change	<u>\$ 509,384</u>	<u>\$ (440,211)</u>
Interest received	\$ 155,307	\$ 51,657
Mineral property interests acquired through share issuance	\$ -	\$ 1,750,360
Mineral property cost related to future income tax liability	\$ -	\$ 1,032,110

9. SEGMENTED INFORMATION

The Company is in the business of acquiring, exploring and developing mineral properties. It does not operate in any other business segment. Its mineral properties are located in Ontario, Mongolia and Mexico. All of the expenses incurred related to the acquisition, exploration and development of the Company's mineral properties are capitalized for accounting purposes. See Note 3 for capitalized costs by geographic region. The loss for the year is the result of expenses incurred in Canada.

10. COMPARATIVE FINANCIAL STATEMENTS

The March 31, 2004 consolidated financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not effect prior year loss.

11. SUBSEQUENT EVENTS

On May 28, 2005, the Company issued 150,000 share options at \$0.38 per share to a director which expire in May 2010.

In June 2005, in consideration of \$50,000 (US), the Company granted an option to UC Resources Ltd. to purchase all of the outstanding shares of its wholly owned Mexican subsidiary, Minera for \$500,000 (US) on or before October 8, 2005, which, if the option is exercised, will result in the disposition of the Company's entire Mexican mineral property interests.