

# PLANET EXPLORATION INC.

SECOND QUARTER SHAREHOLDERS' REPORT  
AS AT SEPTEMBER 30, 2006

## MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis is a review of operations, current financial position and outlook for the Company and should be read in conjunction with the unaudited interim consolidated financial statements for the six months ended September 30, 2006, the audited financial statements for the year ended March 31, 2006 and management's discussion and analysis for the year ended March 31, 2006. The financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

Statements in this document may contain forward-looking information. Estimates provided for fiscal 2007 and beyond are based on assumptions of future events and actual results could vary significantly from these estimates. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the company. The reader is cautioned not to place undue reliance on this forward-looking information.

## OPERATIONS UPDATE

Planet Exploration Inc. ("Planet" or the "Company") is a junior mineral exploration company that is listed as "PXI" on the TSX Venture Exchange.

## CORE PROPERTY UPDATE

### Sidace Lake

#### **Sidace Lake (Red Lake Mining District), Ontario**

Subject only to a 1% Net Smelter Royalty ("NSR"), Planet/Goldcorp joint venture owns 100% of the Sidace Lake Property, which comprises 63 unpatented contiguous mining claims (covering approximately 12,439 hectares) in the Red Lake Mining Division, Ontario. The property is covered by the Coli Lake (G-1759), Sobeski Lake (G-1885) and the Black Bear Lake (G-1739) claim map sheets (N.T.S 52N/5) located 25 km northeast of Balmertown. On May 10, 2006, Goldcorp, the operator of the property, exercised its option to increase its ownership in the Sidace Lake property from 50% to 60%. All current and future costs are to be borne 60% to Goldcorp and 40% to Planet. Planet is well funded and is well able to meet its commitments as it goes forward in exploring this property.

From 1998, when Planet first took an interest in the property, to the end of September 2006, the Company and its joint venture partner had drilled 54,619 metres in 159 holes. A majority of the holes have focussed on the Main Discovery Zone (MDZ). Additional exploratory drilling has also yielded five other targets: the Far West Zone; the Deep Footwall Zone; the Skarn Zone; the Upper Duck Zone; and the Anderson Zone. Results received on these targets have been encouraging and will be subject to further drilling in the future. In the upcoming winter season, the joint venture intends to drill approximately 2000m at Upper Duck.

The MDZ features a tight, gold-bearing, arsenopyritic 'Z' fold within a definable quartz-sericite schist. It is robust, of predictable shape and orientation, and the dips of the fold limbs and the plunges of the fold noses are steep, mostly above 65 degrees. The fold and gold values are confined to an unfolded strike of 200m near surface, which increases as tightness of the fold eases in depth to closer to 350m at about 400m vertically below surface datum. Grades appear to improve with depth.

The following are the more important values returned in the last 24 months of drilling on the MDZ:

Hole#	Zone	Depth m	Au Grade g/t	Thickness m
RL-06-107	MDZ	329.00	9.65	14.00
		391.50	4.24	20.50
RL-06-109	MDZ	322.00	10.63	11.00
		368.00	22.68	3.00
RL-06-112	MDZ	418.00	2.62	8.00
		523.00	11.66	18.00
RL-06-118	MDZ	72.00	4.65	2.00
		107.00	3.00	16.70
RL-06-119	MDZ	91.00	2.71	11.10
RL-06-121	MDZ	39.00	1.32	13.00
		75.00	1.31	9.00
		88.00	1.44	7.00
RL-06-122	MDZ	96.00	1.13	15.00
		122.00	1.76	10.00
		138.00	4.89	8.00
		151.00	3.73	3.00
RL-06-124	MDZ	34.00	1.87	19.10
		64.00	3.22	3.70
RL-06-125	MDZ	200.00	1.44	5.00
		238.00	3.00	27.00
RL-06-128	MDZ	298.60	2.68	8.40
		468.00	5.76	32.00
RL-06-131		390.00	397.00	14.57
		401.00	404.00	4.31
RL-06-132		342.00	345.00	4.80
		436.00	439.00	8.16
RL-06-133		278.00	282.00	7.08
		332.00	336.00	6.87
RL-06-134A		78.00	78.50	31.00
		379.00	380.00	10.30
		451.00	453.00	9.02
RL-06-136	556	561	3.1	5.00
		567	571	3.78
		624.00	632.00	4.41
		730.00	733.00	6.98
RL-06-136a		577.00	543	3.38
			584	4.33

These encouraging results have increased the potential of the Main Discovery Zone having a stand-alone mineable reserve, although this has not yet been confirmed. Goldcorp, the operator, have decided with us that we will be concentrating on further delineation of the Main Discovery Zone, and we remain very encouraged by these gold values. We have completed over 5500m in the summer 2006 phase of drilling, all of which was directed at further delineating the MDZ. One

ongoing hole RL-06-137 being drilled to 1265m (900m vertical depth from surface) and 2 wedges off it have still to be completed as a part of that program.

At these depths, drilling is, of necessity, a slow process, but we are pleased with the progress made, despite uncontrollable deviations of some holes at these great depths, which forced their abandonment (RL-06-134, 134b, 135) before intersecting the zone.

A further phase of 6000m of deep drilling on the MDZ is planned for 2007.

In the past, the Upper Duck (UDZ) feature, which is over a kilometre west of the MDZ, has been followed for several hundred metres, and shows a core zone of some 200-300m strike on a 2.0-4.0m thick iron formation that recorded several good grades:

Hole	from	to	Au	interval
	m	m	g/t	m
RL-04-61	42.00	46.00	8.28	4.00
RL-05-66	102.00	110.90	4.03	8.90
	121.00	128.80	9.71	7.80
RL-05-67	100.50	104.50	15.18	4.00
RL-05-68	30.00	45.00	4.08	15.00
Including	36.00	37.00	59.15	1.00
RL-05-70	137.00	140.50	5.23	3.50
RL-05-78	157.00	158.00	16.75	1.00
	169.00	170.00	3.01	1.00
	177.00	178.00	5.20	1.00
RL-05-79	180.00	183.58	6.62	3.58
Including	182.68	183.58	22.36	0.90
RL-05-80	47.00	48.00	2.33	1.00
	49.00	50.00	5.65	1.00
	58.00	59.00	3.34	1.00
	63.00	63.85	4.73	0.85

No holes have probed the UDZ at depth. In the upcoming winter season, four 500m drill holes will target the feature, directly beneath the area in which the best values were returned.

Planet and Goldcorp continue drilling on the joint venture property under the field management of Goldcorp. Because the Sidace Lake property contains no identified mineral resource or reserve as defined by the NI 43-101, it is included for its upside potential only should exploration prove successful.

### **Copalquin, Mexico**

On October 8, 2005, the Company disposed 100% of its interest in the Copalquin property by selling all of the outstanding shares of its Mexican subsidiary, Minera Planet Exploration, S.A de C.V.

## Mongolia

Planet's only Mongolian property, the Argalant (Ovoot) property (2,090 hectares) is located in Zavkhan province, Mongolia, lies in the south-eastern portion of the Bayan-Airag gold-copper region of the Urgamal-Zavakhanmandeal metallogenic belt. In October, 2005, in consideration of a non-refundable deposit of \$100,000 (US), the Company entered into an agreement with Red Hill Energy Inc. ("RH"), formerly UGL Enterprises Ltd., entitling RH to earn 60% of the Company's interest in the Argalant property by conducting a minimum of \$1,500,000 (US) in exploration prior to October, 2008. IF RH conducts the required exploration, it has the option to purchase an additional 20% interest for a consideration \$1,000,000(US) before April 6, 2009.

### **Selected Financial Information**

	Six months Ended September 30, 2006	Six months Ended September 30, 2005
Interest Revenue	\$ 172,223	\$ 100,768
Net Income after taxes	\$ 15,294	\$ 3,993
Basic Income per share	\$ 0.001	\$ 0.001
Working Capital	\$ 7,756,508	\$ 7,375,005
Mineral Properties	\$ 4,207,322	\$ 4,311,815
Total Assets	\$12,390,510	\$12,078,233
Shareholders' Equity	\$11,045,302	\$10,827,906
Weighted number of shares		
Basic	25,259,190	25,259,190
Diluted	25,323,074	25,296,003

### **Results of Operations**

	Six months Ended September 30, 2006	Six month Ended September 30, 2005
General and administrative expense	\$134,781	\$135,042
Net Income (loss) before taxes and unusual item	\$ 34,734	(\$ 57,582)
Unusual Item: Gain on sale of mineral property	\$nil	61,575
Future Income tax provision	19,440	\$ nil
Net Income for the period	15,294	3,993

The Company has no revenues from operations.

The Company's only source of revenue was comprised of interest income except that during the six month period ended September 30, 2005, the Company also realized a gain on sale of mineral property.

The level of acquisitions, disposals and exploration activity has a direct effect on the level of the general and administrative expenses.

## **Discussion on the Current Quarter and Year to Date**

### ***Results of Operations – Three months ended September 30, 2006 compared with three months ended September 30, 2005***

#### **Revenues**

##### Interest Income

For the quarter ended September 30, 2006, the Company earned interest revenues of \$89,421 compared to \$51,504 for the three months ended September 30, 2005. This increase of 74% was due to higher bank interest rates and increased deposits.

##### Unusual Item: Gain on sale of mineral property

In July 2005, the Company granted UC Resources Ltd., an option to purchase all of the outstanding shares of its Mexican subsidiary, Minera Planet Exploration S.A. de C.V. The non-refundable deposit of \$61,575 has been recorded as a gain on sale of mineral property.

#### **General and Administrative Expenses**

General and administrative expenses for the quarter ended September 30, 2006 were \$70,376 compared to \$101,089 for the three months ended September 30, 2006. The particular level of acquisitions, dispositions and exploration activities have a direct effect on the level of general and administrative costs.

#### **Stock Options**

The Company recorded \$2,488 (2005 - \$nil) in stock-based compensation during the three months ended September 30, 2006.

#### **Related Party Transactions**

The Company incurred \$15,000 (2005 - \$15,000) in consulting fees from an officer of the Company. These fees have been included in general and administrative expenses.

The Company incurred \$15,000 (2005 - \$15,000) in legal fees from a law firm in which a director of the Company is principal. The Company also incurred \$6,750 (2005 - \$6,750) in consulting and administrative fees from a firm in which the director is principal. These fees have been included in General and Administrative expenses.

The Company incurred \$nil (2005 - \$2,500) in fees from a director of the Company. The Company incurred \$12,316 (2005 - \$nil) in accounting fees from a firm in which the director is principal. These fees have been included in General and Administrative expenses.

The Company incurred \$nil (2005 - \$15,016) in geological consulting fees from a Company in which a director of the Company is principal. These fees have been capitalized to mineral properties.

***Results of Operations - Six months ended September 30, 2006 compared with the six months ended September 30, 2005***

**Revenues**

Interest Income

For the six month period ended September 30, 2006, the Company earned interest revenues of \$172,223 compared to \$100,768 for the six month period ended September 30<sup>th</sup>, 2005. This increase of 71% was due to higher bank interest rates and increased deposits.

Unusual Item: Gain on sale of Mineral property

In July 2005, the Company granted UC Resources Ltd., an option to purchase all of the outstanding shares of its Mexican subsidiary, Minera Planet Exploration S.A. de C.V. The non-refundable deposit of \$61,575 has been recorded as a gain on sale of mineral property.

**General and Administrative Expense**

General and administrative expenses for the six months ended September 30<sup>th</sup>, 2006 were \$134,781 compared to \$135,042 for the six months to September 30, 2005. The particular level of acquisitions, dispositions and exploration activities have a direct effect on the level of general and administrative costs.

**Stock Options**

The Company recorded \$2,488 (2005 - \$22,993) in stock-based compensation during the six month period ended September 30, 2006.

**Related Party Transactions**

For the six month period ended September 30, the Company incurred \$30,000 (2005 - \$35,000) in consulting fees from an officer of the Company. These fees have been included in general and administrative expenses.

For the six month period ended September 30, the Company incurred \$30,000 (2005 - \$30,000) in legal fees from a law firm in which a director of the Company is principal. The Company incurred \$13,500 (2005 - nil) in consulting and administrative fees from a firm in which the director of the Company is principal. The fees have been included in general and administrative expenses.

For the six month period ended September 30, the Company incurred \$nil (2005 - \$2,500) in fees from a director of the Company. The Company also incurred \$17,029 (2005 - \$2,000) in accounting fees from a firm in which the director of the Company is principal. These fees have been included in general and administrative expenses.

For the six month period ended September 30, the Company incurred \$14,841 (2005 - \$15,016) in geological consulting fees from a company in which the director of the Company is principal. These fees have been capitalized to mineral properties.

Accounts payable includes \$19,905 (2005 - \$5,500) owing to related parties.

## **Risk and Liquidity**

Planet's business plan has been to grow through exploration for mineral resources. Planet's principal risks, as an exploration company, are that it must find and develop economic mineral resources and be able to fund the associated capital expenditures. Planet relies on equity financing. If any components of the business plan should be missing, the company may not be able to continue executing the entire business plan.

Exploration projects are reviewed at a very early stage from all aspects including: corporate fit, environmental issues, timing, costs and reward potential. Identified risks are addressed and excessive risks are mitigated, to the extent possible, before any project is approved.

## **Critical Accounting Policies**

The Company prepares its Financial Statements in conformity with Generally Accepted Accounting Principles ("GAAP") in Canada. The Company lists its significant accounting policies in Note 2 to its Audited Consolidated Financial Statements for the fiscal year ended March 31, 2006. The company has identified the following accounting policy, which is believed to be the most critical in fully understanding and evaluating the reported financial results:

### **Mineral Properties**

Acquisition and exploration costs of mineral property interests are capitalized and deferred until such time as the property is put into production, the property is disposed of either through sale or abandonment or the property is considered uneconomic in the foreseeable future.; if put into production, the cost 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 of option proceeds with respect to undeveloped properties are credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned or considered uneconomic in the foreseeable future, the acquisition and deferred exploration costs are 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 operation from the property or sale of the property.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The Preparation and presentation of the accompanying financial statements are the responsibility of the Management of the Company. The statements have been prepared in accordance with GAAP. The financial information elsewhere in this report has been reviewed to ensure consistency with that in the financial statements.

Management acknowledges responsibility for the integrity of its financial information. Where appropriate, management has made informed judgements and estimates in accounting for transactions that were not complete at the balance sheet date. Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained.

Salim Jivraj,  
Director

Darold H. Parken,  
Secretary