

**PLANET EXPLORATION INC.**  
**FIRST QUARTER SHAREHOLDERS' REPORT**  
**AS AT JUNE 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 quarterly consolidated financial statements for the three months ended June 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 (Red Lake Mining District), Ontario**

The Company commenced a summer drill program in July 2006. The summer program will comprise of several deep (450m - 1,100m) holes totaling over 6,000 meters and will focus mainly on the Main Discovery Zone (MDZ), on which recent drilling results have been very encouraging.

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% for consideration equivalent to \$658,849 (\$600,000 USD). As a result, Planet now holds a 40% interest in the property.

Subject only to a 1% Net Smelter Royalty ("NSR"), Planet/Goldcorp Inc. 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.

From 1998, when Planet first took an interest in the property, to the end of June 2006, the Company and its joint venture partner had drilled 49,385 metres in 150 holes. A majority of the holes have focussed on the MDZ. The MDZ features a tight, gold-bearing, arsenopyritic 'Z' fold within a definable quartz-sericite schist, is robust, of predictable shape and orientation. 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. Both grades and thickness appear to improve with depth.

Additional exploratory drilling has also yielded five new 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.

The following are the more important values returned in the last 21 months of drilling on the MDZ:

Hole #	Zone	Depth	Au Grade	Thickness
		m	g/t	m
RL-06-107	MDZ	329.00	9.65	14
		391.5	4.24	20.5
RL-06-109	MDZ	322.00	10.63	11
		368.00	22.68	3
RL-06-112	MDZ	418	2.62	8
		523.00	11.66	18
RL-06-118	MDZ	72.00	4.65	2
		107.00	3	16.7
RL-06-119	MDZ	91.00	2.71	11.1
RL-06-121	MDZ	39	1.32	13
		75.00	1.31	9
		88	1.44	7
RL-06-122	MDZ	96.00	1.13	15
		122	1.76	10
		138.00	4.89	8
		151.00	3.73	3
RL-06-124	MDZ	34.00	1.87	19.1
		64.00	3.22	3.7
RL-06-125	MDZ	200.00	1.44	5
		238.00	3	27
RL-06-128	MDZ	298.60	2.68	8.4
		468.00	5.76	32

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. Thickness of the zone has improved with depth and so have gold values, and the overall strike length over which appreciable gold values are returned appears to be greater at depth than in the shallower intersections.

We remain very encouraged by obtaining gold values such as 9.65g/t Au over 14.00m, 10.63g/t Au over 11.00m, 22.68g/t Au over 3.00m, 11.66g/t Au over 18m and 5.76g/t Au over 32m.

The summer 2006 phase of drilling, which has already commenced, comprises drilling several deep (450-1100m) holes totaling over 6,000m directed wholly at further delineating the MDZ.

Planet and Goldcorp continue drilling on the joint venture property under the field management of Goldcorp. Until March 2005 all direct exploration expenses were funded by Goldcorp but since that date any additional costs have been shared between the two partners. Up to May 2006, costs were shared 50/50 at which time Goldcorp exercised their option to acquire an additional 10% of the property. Future costs will be split *pro rata*, 60% to Goldcorp and 40% to Planet.

Planet is well funded and will be able to meet its commitments as it goes forward in exploring these targets. 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 the Zavkhan province, and lies in the south-eastern portion of the Bayan-Airag gold-copper region of the Urgamal-Zavakhanmandeal metallogenic belt. In October, 2005 for a consideration 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 property by conducting a minimum of \$1,500,000 (US) in exploration prior to October 2008. The deposit is non-refundable.

If RH conducts the required exploration, it has the option to purchase an additional 20% interest for \$1,000,000 (US) before April 6, 2009.

## **First Quarter Ended June 30, 2006**

### **Selected Financial Information**

	<b>First Quarter Ended June 30, 2006</b>	First Quarter Ended June 30, 2005
Interest Revenue	\$ 82,802	\$ 49,264
Net Income (loss)	\$ 19,169	\$ (7,839)
Basic Income (loss) per share	\$ 0.001	\$ (0.012)
Working capital	\$ 8,137,243	\$ 7,677,249
Mineral properties	\$ 3,807,541	\$ 3,997,582
Total assets	\$ 11,997,674	\$ 11,866,524
Shareholder's equity, June 30	\$ 11,046,690	\$ 10,816,074
Basic and diluted number of shares outstanding as at June 30	\$ 25,259,190	\$ 25,259,190

## **Operating Results**

During the quarter ended June 30, 2006, Planet focused its efforts primarily on its diamond drilling program on the Sidace Lake Project.

<b>First Quarter Ended June 30, 2006</b>	First Quarter Ended June 30, 2005	<b>% change</b>
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	<b>First Quarter Ended June 30, 2006</b>	First Quarter Ended June 30, 2005	<b>% change</b>
General & Administrative expense	\$ 64,405	\$ 33,953	90
Net Income (Loss)	\$ 19,169	\$ (7,839)	174

The Company produces no revenue from operations. The Company's only revenue comprised of interest income. All expenses relate to general and administrative costs and mineral property acquisitions and exploration. The particular level of acquisition and exploration activity has a direct effect on the level of general and administrative costs. All expenses relate to general and administrative costs and mineral property acquisitions and exploration. The particular level of acquisition and exploration activity has a direct effect on the level of general and administrative costs. Management is not aware of any discernable quarterly trends in expenditures.

***Discussion of Financial Results – Three months ended June 30, 2006 compared with three months ended June 30, 2005***

Planet had no revenue from operations during the quarter ended June 30, 2006 and has not produced any revenue from operations since its inception. Planet's only revenue was interest income.

**Interest Income**

Interest income was \$82,802 for the quarter ended June 30, 2006 compared to \$49,264 in the quarter ended June 30, 2005. The increase of \$33,538 in interest is due to increased cash in our bank accounts and increasing interest rates.

**General and Administrative Expenses**

General and administrative expenses for the quarter ended June 30, 2006 were \$64,405, compared to \$33,953 for the quarter ended June 30, 2005. All expenses relate to general and administrative costs and mineral property acquisitions and exploration. The particular level of acquisition and exploration activity has a direct effect on the level of general and administrative costs. Management is not aware of any discernable quarterly trends in expenditure.

**Cash Flow From Operations**

Planet generated \$18,397 in cash flow from investing its cash resources in the quarter ended June 30, 2006, compared to \$15,311 for the quarter ended June 30, 2005. Planet has not commenced mineral producing activities.

**Stock Options**

No stock options were granted during the quarter ended June 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 - nil) in consulting and administrative fees

from a firm in which the director of the Company is principal. These fees have been included in general and administrative expenses.

The Company incurred \$4,713 (2005 - nil) 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.

The Company incurred \$678 (2005 - nil) in geological consulting fees to a director of the Company. The Company also incurred \$14,841 (2005 - \$4,794) in geological consulting fees from a company in which the director of the Company is principal. These fees have been capitalized to the mineral properties.

Accounts payable includes a total of \$18,965 (2005 - nil) 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.

## **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 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 or 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 operations from the property or sale of the property.