



CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010 and 2009

Stated in Canadian Funds

Management's Responsibility

To the Shareholders of Premium Exploration Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of the Premium's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board Audit Committee and management to discuss their audit findings.

April 14, 2011

"Delbert W. Steiner"
President & Chief Executive Officer

"Grant T. Smith"
Chief Financial Officer



MEYERS NORRIS PENNY LLP

Independent Auditors' Report

To the Shareholders of Premium Exploration Inc.:

We have audited the accompanying consolidated financial statements of Premium Exploration Inc. and its subsidiaries which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statements of loss, comprehensive loss, deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statement present fairly, in all material respects, the financial position of Premium Exploration Inc. and its subsidiaries as at December 31, 2010, and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of these financial statements, which states that Premium Exploration incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters as described in Note 1, indicate the existence of a material uncertainty which may cast doubt about the ability of Premium Exploration Inc. to continue as a going concern.

Other Matter

The consolidated financial statements of Premium Exploration Inc. as at December 31, 2009 and for the year then ended were audited by another firm of chartered accountants who expressed an unmodified opinion on those statements in their audit report dated April 27, 2010.

Meyers Norris Penny LLP

April 14, 2011
Vancouver, BC

Chartered Accountants



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Premium Exploration Inc.

Statement 1

Consolidated Balance Sheets

As at 31 December

Canadian Funds

		As at	As at
	Note	31 December 2010	31 December 2009
ASSETS			
Current Assets			
Cash		\$ 5,329,182	\$ 1,123,951
Receivables		141,392	28,222
Prepaid expenses		67,451	59,023
		<u>5,538,025</u>	<u>1,211,196</u>
Non-current Assets			
Resource properties	(5)	2,367,646	249,889
Property and equipment	(6)	557,508	101,186
		<u>\$ 8,463,179</u>	<u>\$ 1,562,271</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 495,092	\$ 230,718
Current portion of long-term debt	(7)	174,150	-
		<u>669,242</u>	<u>230,718</u>
Long-term Liabilities			
Long-term debt	(7)	171,231	-
SHAREHOLDERS' EQUITY			
Share capital	(8)	19,826,801	10,468,438
Share purchase warrants	(8)	4,959,744	1,632,936
Contributed surplus	(8)	1,800,598	1,508,483
Deficit		(18,964,437)	(12,278,304)
		<u>7,622,706</u>	<u>1,331,553</u>
		<u>\$ 8,463,179</u>	<u>\$ 1,562,271</u>

Going Concern (1)
Commitments (13)
Subsequent Events (14)

ON BEHALF OF THE BOARD:

"Delbert W. Steiner", Director

"Patrick Sam Yue", Director

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the Years Ended 31 December

Canadian Funds

		Year ended 31 December	Year ended 31 December
	Note	2010	2009
EXPENSES			
Resource property expenditures	(5)	\$ 4,346,503	\$ 1,269,006
Management fees	(9)	544,277	215,690
Stock-based compensation	(8)	462,083	302,077
Shareholder relations		408,507	317,473
Travel		286,787	112,024
Professional fees		220,685	124,134
Office and general		147,072	59,878
Office rent		105,731	56,870
Amortization		46,935	52,759
Transfer agent and filing fees		34,058	39,933
Foreign exchange loss (gain)		32,235	(130,101)
Insurance		14,913	20,482
Interest expense		8,155	7,344
Interest income		(19,880)	(2,169)
Loss before the other items		(6,638,061)	(2,445,400)
Gain on extinguishment of debt		-	(7,467)
Write off of equipment	(6)	48,072	65,592
Loss and comprehensive loss for the year		(6,686,133)	(2,503,525)
Deficit - beginning of year		(12,278,304)	(9,774,779)
Deficit - End of Year		\$ (18,964,437)	\$ (12,278,304)
Loss per Share - Basic and Diluted		\$ (0.06)	\$ (0.05)
Weighted Average Number of Shares Outstanding		114,282,730	46,048,490

Premium Exploration Inc.

Consolidated Statement of Cash Flows

For the Years Ended 31 December 2010 and 2009

Canadian Funds

CASH RESOURCES PROVIDE BY (USED IN)	2010	2009
Cash Flow from Operations		
Loss for the year	\$ (6,686,133)	\$ (2,503,525)
Items not affecting cash:		
Amortization	46,935	52,759
Stock-based compensation	462,083	302,077
Shares issued for resource property	-	33,945
Unrealized foreign exchange	-	(9,997)
Loss on disposition of equipment	48,072	65,592
	(6,129,043)	(2,059,149)
Net Change in non-cash working capital	142,776	(248,618)
	(5,986,267)	(2,307,767)
Investing Activities		
Purchase of property and equipment	(551,329)	(12,029)
Property advances received	-	250,000
Resource acquisition costs	(518,799)	-
Repayment of advances	-	(125,000)
	(1,070,128)	112,971
Financing Activities		
Issuance of shares	8,795,013	1,970,663
Issuance of share purchase warrants	2,984,000	1,302,576
Unit offering issuance costs	(862,768)	(42,364)
Issuance of notes payable	345,381	-
Repayment of notes payable	-	(57,624)
	11,261,626	3,173,251
Net Increase in Cash	4,205,231	978,455
Cash position - beginning of year	1,123,951	145,496
Cash Position - End of Year	\$ 5,329,182	\$ 1,123,951
Schedule of non-cash investing and financing transactions:		
Shares issued for property	\$ 1,591,958	\$ -
Settlement of related party payable	-	54,016
Fair value of options exercised	169,968	20,841
Fair value of warrants exercised	319,112	8,871
Fair value of purchase warrants – issue costs	-	(63,454)
Shares issued for debt – note payable	-	192,161
Share issued for share issuance costs	-	161,000
Shares issued to settle of property advance	-	125,000
Share issuance costs	(661,920)	(97,546)
Supplementary disclosure of cash flow information:		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

For the Years Ended 31 December 2010 and 2009

Canadian Funds

1. Going Concern

The Company was incorporated in the Province of British Columbia, Canada on 27 February 2004. The Company is in the exploration stage and is in the process of exploring several mineral properties in the United States and Mexico. The Company has not yet determined whether these properties contain economic reserves. The Company is listed on the TSX Venture Exchange ("TSX-V").

These consolidated financial statements have been prepared on the basis of the accounting principles applicable to a going concern, which assumes the Company will be able to 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.

There are several adverse conditions that cast significant doubt upon the soundness of this assumption. The Company losses since inception and has an accumulated deficit of \$18,964,437 (2009 - \$12,278,304). The business of mining and exploration 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 resource property expenditures is dependent upon several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties.

Consistent with other companies, in the sector of mineral exploration, the Company has incurred operating losses since inception, has no source of revenue, is unable to self finance operations and has significant cash requirements to meet its overhead and maintain its mineral interests.

For the company to continue to operate as a going concern it must continue to obtain additional financing to maintain operations; although the Company has been successful in the past at raising funds, there can be no assurance that this will continue in the future.

If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used and such adjustments could be material.

2. Significant Accounting Policies

a) Basis of Presentation

These consolidated financial statements include the accounts of the Company and its significant wholly-owned subsidiaries:

- Premium Exploration U.S.A., Inc. ("Premium USA"), which was incorporated at nominal cost in the State of Nevada, U.S.A.
- Compania Minera Zorro de Plata, S.A. de C.V. ("CMZ"), which was incorporated at nominal cost in the State of Sonora, Mexico.
- Compania Minera Zorro de Rojo, S.A. de C.V. ("CMR"), which was incorporated at nominal cost in the State of Sonora, Mexico.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

For the Years Ended 31 December 2010 and 2009

Canadian Funds

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments that are readily convertible into cash with maturity dates not to exceed 90 days from the date of issuance.

c) Management's estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's key estimates relate to the valuation and estimated useful lives of equipment, the measurement of stock-based compensation, the valuation of warrants, the valuation allowance for future income tax assets and liabilities, valuation and recoverability of resource properties, valuation of shares issued on acquisition of subsidiary and for resource property, implicit interest rates on long term debt, and rates used in foreign currency translation. Actual results may differ from these estimates.

d) Loss per share

Basic earnings (loss) per share are calculated using the weighted-average number of shares outstanding during the period. The Company uses the treasury stock method to calculate diluted earnings per share, which assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The effect on loss per share of the Company's outstanding options and warrants is anti-dilutive and, therefore, basic and diluted loss per share amounts are the same.

e) Share capital

Share capital issued for non-monetary consideration is recorded at an amount based on the quoted market value of the Company's shares at the time of issuance.

f) Stock-Based Compensation

The Company applies the recommendations of CICA Handbook Section 3870, stock-based compensation and other stock-based payments, effective to all awards granted by the Company. This established standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

All stock-based awards made to employees and non-employees are measured using a fair value based method and recognized over the vesting period of the options.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

For the Years Ended 31 December 2010 and 2009

Canadian Funds

g) Resource Properties

Exploration costs incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are charged to operations as incurred. Exploration costs include license and maintenance fees, which are paid on a regular basis.

All direct costs related to acquisition of resource property interests are capitalized, if, in the opinion of management, they have the nature of property, plant and equipment.

Development expenditures incurred subsequent to a development decision that increase or extend the life of existing production, are capitalized and amortized on the unit-of-production method based upon estimated proven and probable reserves.

h) Property Option Agreements

The Company may occasionally acquire or dispose of properties pursuant to the terms of options agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, amounts payable or receivable are not recorded. Option payments are recorded as resource property cost or gains when the payments are made or received.

i) Environmental

The operations of the Company may, in the future, be affected by changes in environmental regulation, including those for future reclamation and site restoration costs. The likelihood of new regulations and the overall effect they might have on the Company vary greatly and are neither measureable nor predictable.

j) Equipment

Equipment is recorded at cost. Amortization is recorded at rates sufficient to write-off the cost of the assets over their estimated useful lives. Amortization rates are as follows:

Computer equipment	20% straight line basis
Field equipment	20% straight line basis
Furniture and equipment	20% straight line basis
Website software	50% straight line basis

k) Asset Retirement Obligations

The Company applies the recommendations of CICA Handbook Section 3110 – Asset Retirement Obligations. This section requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. The liability for asset retirement obligations must be recognized at fair value in the period in which it is incurred, when a reasonable estimate of fair value can be made. Such retirement costs are added to the carrying value of the asset, and amortized into income on a systematic basis over the useful life. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised. The Company has determined that it has no asset retirement obligations as at 31 December 2010 and 2009.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

For the Years Ended 31 December 2010 and 2009

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l) Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

m) Foreign Currency Translation

The Company's functional currency is the Canadian dollar; accordingly, the accounts of the Company's U.S. and Mexican operations have been translated into Canadian dollars as follows:

- Monetary assets and liabilities at year-end rates;
- All other assets and liabilities at historical rates;
- Revenue and expense and exploration and development items at rates approximating those in effect at the date of the transaction, and;
- Exchange gains and losses arising from these transactions are reflected in income or expense in the period.

n) Future Income Taxes

The future income tax asset and liability method of accounting for income taxes is used, whereby future income tax assets and liabilities are recorded based on temporary differences between the carrying amounts of balance sheet items and their corresponding tax bases. Future income tax assets also arise from unused tax losses, subject to a valuation allowance, to the extent that it is more likely than not such losses ultimately will be utilized. This method also requires that the future income tax assets and liabilities be measured using the enacted rates and laws that are expected to apply when these assets and liabilities are either to be realized or settled.

o) Financial Instruments – recognition and measurement

All financial instruments must be recognized, initially, at fair value on the consolidated balance sheet. The Company has classified each financial instrument into the following categories: "held for trading," "loans and receivables," and "other liabilities." Subsequent measurement of the financial instruments is based on their respective classification. Unrealized gains and losses on held for trading instruments are recognized in earnings. The other categories of financial instruments are recognized at amortized cost using the effective interest method. The Company had made the following classifications:

Financial Asset or Liability	Category
Cash	Held for trading
Accounts receivable	Loans and receivables
Accounts payable and accrued	Other liabilities
Due to related parties	Other liabilities
Long term debt	Other liabilities

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

For the Years Ended 31 December 2010 and 2009

Canadian Funds

p) Recent Accounting Pronouncements

International Financial Reporting Standards (“IFRS”)

In October 2009, the Accounting Standards Board issued a third and final IFRS Omnibus Exposure Draft confirming that publicly accountable enterprises will be required to apply IFRS, in full and without modifications, for all financial periods beginning 01 January 2011. The transition to IFRS at 01 January 2011 requires the restatement, for comparative purposes, of amounts reported by the Company for the year ended 31 December 2010, including the opening balance sheet as at 01 January 2010.

3. Changes in Accounting Policy and Recent Accounting Pronouncements

Business combinations

Effective January 1, 2010, the Company elected to adopt CICA Section 1582, “Business Combinations”, which establishes updated principles on the recognition, measurement, and presentation for acquisitions. The new standard will be applied prospectively to all business combinations with a closing date on or after January 1, 2010. As a result of adopting the new standard, the Company has valued the shares issued in connection with the transaction as of the closing price the day before the transaction closed; under the previous standard, the Company would have valued the shares based on the announcement date.

As a result of adopting Section 1582, the Company was also required to adopt Section 1602, “Non-Controlling Interests”, and Section 1601, “Consolidated Financial Statements”, which establish updated principles on the recognition, measurement and presentation for non-controlling interests and consolidated financial statements. The adoption of these standards did not have a significant impact on the Company’s interim consolidated financial statements.

4. Financial Instruments and Risk Management

a) Financial instrument classification and measurement

Financial instruments of the Company carried on the Consolidated Balance Sheet are carried at amortized cost with the exception of cash, which is carried at fair value. There are no significant differences between the carrying value of financial instruments and their estimated fair values as at 31 December 2010 and 2009.

The fair value of the Company’s cash is quoted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy.

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant and significant value drivers are observable in active markets.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

For the Years Ended 31 December 2010 and 2009

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- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's cash has been assessed on the fair value hierarchy described above and classified as Level 1.

b) Fair Values of Financial Assets and Liabilities

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, and long term debt. At 31 December 2010 and 2009, the carrying value of cash is fair value. Accounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short term nature. Long term debt approximates fair value as it has been discounted using a market rate of interest.

c) Market Risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. Market risk is comprised of commodity price risk and interest rate risk. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is not exposed to significant market risk.

d) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts. The Company's bank accounts are held with major banks in Canada accordingly the Company believes it not exposed to significant credit risk.

e) Interest Rate Risk

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to interest rate as its long term debt is non-interest bearing.

f) Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not exposed to significant foreign currency risk as an immaterial amount of assets and liabilities are held in US dollars.

g) Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. As the Company has no significant source of cash flows this is a significant risk.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

For the Years Ended 31 December 2010 and 2009

Canadian Funds

5. Resource Properties

a) Summary of exploration expenditures for the years ended 31 December 2010 and 2009.

Year ended		Idaho Gold Properties	Chrome Mountain (Montana)	United States Total	Mexico	Total
31 December 2010						
Administration	\$	147,160	\$ -	\$ 147,160	\$ -	\$ 147,160
Assaying		603,078	-	603,078	-	603,078
Claim fees		221,271	-	221,271	-	221,271
Drilling		2,516,190	-	2,516,190	-	2,516,190
Field transport		3,703	-	3,703	-	3,703
General		44,643	-	44,643	-	44,643
Geological		681,676	-	681,676	-	681,676
Reports and mapping		8,986	-	8,986	-	8,986
Geophysical		103,495	-	103,495	-	103,495
Surface access		16,301	-	16,301	-	16,301
	\$	4,346,503	\$ -	\$ 4,346,503	\$ -	\$ 4,346,503
Year ended						
31 December 2009						
Administration	\$	148,345	\$ -	\$ 148,345	\$ 383	\$ 148,728
Assaying		126,434	-	126,434	-	126,434
Claim fees		83,681	18,812	102,493	45,724	148,217
Drilling		515,616	-	515,616	-	515,616
Field transport		7,145	-	7,145	4,781	11,926
General		196,331	-	196,331	-	196,331
Geological		113,327	-	113,327	-	113,327
Surface access		8,427	-	8,427	-	8,427
	\$	1,199,306	\$ 18,812	\$ 1,218,118	\$ 50,888	\$ 1,269,006

b) Montana Properties, U.S.A.

As provided by certain agreements and subsequent amendments in prior years, the Company, through its subsidiary Premium USA, purchased certain unpatented mining claims located in Sweetgrass County, Montana. These claims constitute the Chrome Mountain project. In order to complete the acquisition the Company issued 2,100,000 shares (fair value \$223,859) from treasury, paid \$26,030 to one of the vendors and completed the required exploration expenditures on the properties. The Company has staked additional claims, which are contiguous to the original acquired claims.

c) Clearwater Property, Idaho, U.S.A.

On 17 June 2010 the Company entered into an agreement with its wholly owned subsidiary Premium USA, Clearwater Mining Corporation, ("Clearwater"), and Rod Nicholls and Ellen Steiner ("Shareholders"), whereby the Company, through its subsidiary, acquired 100% of the shares of Clearwater from the shareholders. Subsequent to the transaction, Clearwater was merged into Premium USA.

Clearwater held title to the Friday-Petsite, Buffalo Gulch, Dixie, Deadwood and Gallagher mineral properties in Idaho, USA, which are collectively known as the Idaho Gold Properties. The transaction closed on 02 July 2010 when the company issued 3,000,000 shares to the

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

For the Years Ended 31 December 2010 and 2009

Canadian Funds

Shareholders. The transaction is subject to a NSR of 1%, which is capped at \$3,000,000 and an obligation to deliver to the Shareholders the first 6 bars of gold from production.

Concurrent with this agreement, on 17 June 2010, the Company entered into the Revised Royalty Agreement with Premium USA and Kria Resources Ltd, ("Kria") and Valencia Ventures Inc, ("Valencia") with respect to the Buffalo Gulch mineral properties in Idaho USA. The transaction closed on 02 July 2010 when the Company issued 710,900 shares to each of Kria and Valencia with the final payment of \$200,000 to Valencia and \$250,000 to Kria being made on 21 July 2010. The transaction is subject to a NSR of 0.75% on the Buffalo Gulch project to each of Kria and Valencia. Kria holds a bond in the amount of \$75,000 with the Bureau of Land Management in Idaho, and the cash value of that bond will be returned to Kria once the bond has transferred to Premium USA.

In accounting for these concurrent transactions management has used the following assumptions:

- The amounts paid to each of the Shareholders, Kria and Valencia were to acquire the complete rights (subject to NSR and delivery of 6 bars of gold) to the Idaho Gold Properties;
- The use of the exchange value of the related party transaction is appropriate since (a) the transaction is not in the normal course of business for the Company, (b) the change of ownership interest is substantive and (c) the exchange amount is independently supportable;
- The contingent costs (NSR and gold bars) do not have sufficient surety to be valued and accordingly no value has been assessed. Management will continue to consider this decision as new developments arise.

The assumptions above result in the following values being recorded in the financial statements:

Fair value of consideration paid:	
Fair value of shares issued to shareholders (3,000,000 @ \$0.36)	\$ 1,080,000
Fair value of shares issued to Kria & Valencia (1,421,800 @ \$0.365)	518,957
Cash paid to Kria & Valencia	518,800
	<u>\$ 2,117,757</u>

The fair value of assets and liabilities acquired are as follows, and the purchase price has been allocated accordingly:

Fair value of assets and liabilities acquired:	
Resource property	2,117,757
Future income tax asset	231,175
Future income tax liability	(231,175)
	<u>2,117,757</u>

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

For the Years Ended 31 December 2010 and 2009

Canadian Funds

6. Property and Equipment

Details are as follows:

	Cost	Accumulated Amortization	Net Book Value
31 December 2010			
Land	\$ 546,321	\$ -	\$ 546,321
Furniture and equipment	10,364	7,762	2,602
Field equipment	5,008	110	4,898
Website software	20,829	17,142	3,687
	<u>\$ 582,522</u>	<u>\$ 25,014</u>	<u>\$ 557,508</u>
31 December 2009			
Computer equipment	\$ 28,864	\$ 12,443	\$ 16,421
Furniture and equipment	10,364	6,633	3,731
Field equipment	179,421	107,594	71,827
Website software	20,829	11,622	9,207
	<u>\$ 239,478</u>	<u>\$ 138,292</u>	<u>\$ 101,186</u>

During the year the Company derecognized assets with a cost base of 208,285 and accumulated amortization of 160,213. Accordingly the Company realized a loss of \$48,072 on disposition.

On 18 November 2010 the Company acquired the Section 16 property consisting of, Township 29 North, Range 8 East, Boise Meridian, Idaho County, Idaho, Section 16.

The Company has an option on the Red Elk Group of Claims ("Red Elk") in Idaho. The land is designated by the Survey General as Mineral Survey No. 2197 and consists of Red Elk No. 1 and Red Elk No. 2 patented mining claims in the Elk City Mining District and embracing a portion of sections 32 and 33, Township 29 North, Range 8 East, Boise Meridian, Idaho County, Idaho. The option agreement contemplates the following:

The purchase price is agreed to be \$568,000 and shall be paid as:

Down payment	\$ 184,000
Two equal annual payment (non-interest bearing)	\$ 192,000

The right to purchase is exercised by providing written notice on or before 18 October 2012.

7. Long-term Debt

Details are as follows:

	31 December 2010	31 December 2009
Mortgage on purchased land, with implicit interest calculated at 8%, repayable in annual blended payments of \$192,000. The mortgage matures on 18 November 2012 and is secured by the land	\$ 345,381	\$ -
Current portion	(174,150)	-
Long-term debt - being the balance due 18 November 2012	<u>\$ 171,231</u>	<u>\$ -</u>

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

For the Years Ended 31 December 2010 and 2009

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8. Share Capital

a) Authorized: Unlimited common shares without par value.

b) Issued or allotted and fully paid:

	Number of Shares Issued	Shares Amount	Number of Warrants Issued (i)	Warrants Amount
Balance – 31 December 2008	39,442,219	8,095,867	3,400,166	402,685
Issuance of shares for property	25,000	7,625	-	-
Issuance of shares on private placements	20,259,000	2,075,324	20,259,000	1,302,576
Issuance of shares exercise of options	250,000	37,500	-	-
Issuance of shares on warrant exercise	250,000	50,000	-	-
Issuance of brokers shares	805,000	161,000	-	-
Fair value transfer on exercise of options	-	20,841	-	-
Fair value transfer on exercise of warrants	-	8,871	(250,000)	(8,871)
Issuance of shares for resource properties and related	719,000	151,320	-	-
Share issuance costs	-	(139,910)	-	(63,454)
Balance – 31 December 2009	61,750,219	\$ 10,468,438	23,409,166	\$ 1,632,936
Issuance of shares for property	4,421,800	1,598,957	-	-
Issuance of shares on private placements	40,000,000	7,016,000	20,000,000	2,984,000
Issuance of shares on exercise of options	1,392,500	272,113	-	-
Issuance of shares on warrant exercise	6,710,000	1,387,900	-	-
Issuance of shares on exercise of agents warrants	420,000	119,000	-	-
Issuance of agents warrants primary	-	-	2,800,000	661,920
Issuance of agents warrants secondary	-	-	140,000	-
Fair value transfer on exercise of options	-	169,968	-	-
Fair value transfer on exercise of warrants	-	252,919	(6,710,000)	(252,919)
Fair value transfer on exercise of agents warrants primary	-	66,191	(280,000)	(66,193)
Fair value transfer on exercise of agents warrants secondary	-	-	(140,000)	-
Warrants expired	-	-	(3,400,166)	-
Share issuance costs	-	(1,524,685)	-	-
	114,694,519	19,826,801	35,819,000	4,959,744

(i) The number of warrants is expressed in equivalent number of common shares, which may be issuable upon exercise of the warrants.

On 6 July 2010 the Company issued 40,000,000 Units for gross proceeds of \$10,000,000. Each Unit consists of one common share and one-half of a common share purchase warrant (“primary warrants”), each whole warrant entitling the holder to acquire an additional common share at a price of \$0.35 per share for an eighteen month period following closing. The funds raised include a 7% cash commission payable upon closing and 7% broker’s warrants (issuable upon closing). Each broker’s warrant allows the holder thereof to purchase a Unit at an exercise price of \$0.25 per Unit, exercisable for a period of 18 months after the closing date. Each such Unit has the same terms and conditions as those offered under the private placement and is also each comprised of one common share and one-half of a common share purchase warrant (“secondary warrants”), with each whole warrant entitling the holder to acquire an additional common share at a price of \$0.35 per share for an eighteen month period following closing. Fair

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value attributable to warrants attached to the private placement was estimated to be \$2,984,000 and the fair value of brokers warrants issued was estimated to be \$661,920. The Company recognized stock issuance costs of \$1,524,685 in conjunction with the private placement.

During the year ended December 31, 2010, the Company issued 1,392,500 shares on exercise of options for proceeds of \$272,113 and recognized fair value transfers from contributed surplus of \$169,968.

Fiscal 2010 saw 7,130,000 warrants exercised for proceeds of \$1,506,900 and recognized fair value transfers of \$319,111 from contributed surplus.

On 02 July 2010 the Company issued 3,000,000 shares to acquire title to the Idaho Gold Properties (note 4) and 710,900 shares to each of Kria and Valencia in conjunction with the Revised Royalty Agreement (note 4).

On 29 May 2009 the Company issued 6,739,000 units on a private placement at \$0.10 per unit for gross proceeds of \$540,922, and settled certain note payables to related parties with a carrying value of \$132,978. Each unit consisted of one common share and one common share purchase warrant. Each warrant allows the holder to acquire one additional common share for a two year period at an exercise price of \$0.20 in the first year and \$0.50 in the second year. The Company paid commissions of \$28,845 in conjunction with the private placement.

On 02 September 2009 the Company issued 94,000 shares as part of a drilling contract on the Petsite Friday property. These shares were valued at the exchange price on the day of issuance for a total deemed value of \$26,320.

On 23 October 2009 the Company issued 7,145,000 units on a private placement at \$0.20 per unit for gross proceeds of \$1,429,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant allows the holder to acquire one additional common share for an eighteen month period at an exercise price of \$0.30. The warrants are subject to an acceleration clause which comes into effect once the shares trade above a weighted average price of 200% or more from the exercise price, for any fifteen consecutive trading-day period subsequent to four months from the closing date.

In this event, the Company may accelerate the expiry of the warrants upon providing 60 days notice to the warrant holders. The Company issued 402,500 (valued at \$80,500) shares in finder's fees in relation to this placement of which \$50,419 relates to share issuance costs and \$30,081 relates to warrant issuance costs. The securities issued are subject to a four-month hold period from the date of issuance. The Company paid commissions of \$7,145 in conjunction with this private placement.

On 12 November 2009 the Company issued 6,375,000 units on a private placement at \$0.20 per unit for gross proceeds of \$1,215,817, and settled certain note payables to related parties of \$59,183. Each unit consisted of one common share and one common share purchase warrant. Each warrant allows the holder to acquire one additional common share for an eighteen month period at an exercise price of \$0.30. The warrants are subject to an acceleration clause which comes into effect once the shares trade above a weighted average price of 200% or more from the exercise price, for any fifteen consecutive trading-day period subsequent to four months from the closing date. In this event, the Company may accelerate the expiry of the warrants upon providing 60 days notice to the warrant holders. The Company issued 402,500 (valued at

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\$80,500) shares in finder's fees in relation to this placement of which \$47,127 relates to share issuance costs and \$33,373 relates to warrant issuance costs. The securities issued are subject to a four-month hold period from the date of issuance. The Company paid commissions of \$6,375 in conjunction with this private placement.

On 10 November 2009 the Company issued 625,000 shares to SNS Silver Corp in settlement of the advance property payment of \$125,000.

c) Summary of stock option activity

The Company has adopted an incentive stock option plan to grant options to directors, officers and consultants up to a maximum of 20% of the Company's issued and outstanding common shares. The options are for a maximum term of 5 years and vest as to 25% on the date of grant and 25% each 6 months thereafter and the option exercise price shall not be less than the discounted market price as defined by the TSX-V.

Stock option activity during the year is summarized as follows:

	2010	Weighted Average Exercise Price	2009	Weighted Average Exercise Price
Balance - beginning of year	6,905,000	\$0.25	4,205,000	\$0.44
Granted	2,460,000	0.36	3,350,000	0.18
Exercised	(1,392,500)	0.20	(250,000)	0.15
Expired / Cancelled	(750,000)	0.17	(400,000)	0.33
Balance – end of Year	7,222,500	0.30	6,905,000	\$0.25

Details of stock options outstanding as at 31 December are as follows:

Expiry Date	Exercise Price	2010	2009
1 March 2011	\$0.30	450,000	450,000
15 November 2011	0.20	125,000	300,000
5 March 2012	0.23	1,050,000	1,050,000
24 April 2012	0.35	200,000	200,000
24 April 2012	0.40	130,000	130,000
24 October 2012	0.35	875,000	875,000
15 February 2013	0.66	150,000	150,000
7 April 2013	0.33	-	150,000
2 May 2013	0.30	400,000	500,000
19 Jan 2014	0.15	800,000	1,600,000
5 April 2014	0.15	-	600,000
20 Oct 2014	0.25	-	300,000
4 Nov 2014	0.25	600,000	600,000
30 Jun 2015	0.36	2,442,500	-
		7,222,500	6,905,000

The outstanding options have a weighted-average exercise price of \$0.30 (2009 - \$0.25) and the weighted-average remaining life of the options is 2.83 (2009 - 3.27) years. As at 31 December 2010, a total of 5,551,725 (2009 - 5,655,000) of these outstanding options had vested.

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d) Warrants

	2010		2009	
		Weighted Average Exercise Price		Weighted Average Exercise Price
Balance - beginning of Year	23,409,166	\$0.30	3,400,166	\$0.50
Issued	22,940,000	0.34	20,259,000	0.27
Exercised	(7,130,000)	0.21	(250,000)	0.20
Expired	(3,400,166)	0.50	-	-
Balance – end of Year	35,819,000	\$0.32	23,409,166	\$0.30

A summary of warrants outstanding is as follows:

	Price	Expiry	Number of Warrants (i)
Issued 20 August 2008	0.75	26 August 2010	-
Issued 29 May 2009	0.20	29 May 2011	235,000 i
Issued 23 October 2009	0.30	23 April 2011	6,945,000 ii
Issued 12 November 2009	0.30	12 May 2011	6,125,000 ii
Issued 5 July 2010	0.35	5 January 2012	19,994,000
Issued 5 July 2010	0.25	5 January 2012	2,520,000
Balance - 31 December 2010			35,819,000

- i) Exercises at \$0.50 in the second year
- ii) Subject to an acceleration clause (*Note 7b*)

e) Stock-based compensation

For the year ended 31 December, the Company issued stock options to its directors, officers, employees, and consultants and recognized stock-based compensation as follows:

	2010		2009	
Total options granted		2,460,000		3,350,000
Average exercise price (in Cdn\$)	\$	0.36	\$	0.18
Estimated fair value of compensation	\$	677,000	\$	352,983
Estimated fair value per option	\$	0.22	\$	0.10

The fair value of the stock-based compensation recognized in the financial statements has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

	2010	2009
Risk-free interest rate	1.54%	1.84%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	131.00%	92.52%
Expected option life in years	5.00	5.00

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Stock-based compensation for the options that vested during the year is as follows:

	2010	2009
Number of options vested	2,905,000	2,131,250
Total compensation recognized	\$ 462,083	\$ 302,077

The Black-Scholes Option Pricing Model was created for use in estimating the fair value of freely tradable, fully transferable options. The Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the highly subjective input assumptions can materially affect the calculated values, management believes that the accepted Black-Scholes model does not necessarily provide a reliable measure of the fair value of the Company's stock option awards.

f) Contributed Surplus

Details are as follows:	2010	2009
Balance - Beginning of Year	\$ 1,508,483	\$ 1,227,247
Stock-based compensation	462,083	302,077
Fair value of stock options exercised	(169,968)	(20,841)
Balance - End of Year	\$ 1,800,598	\$ 1,508,483

9. Related Party Transactions

Transactions and balances with related parties not disclosed elsewhere in the financial statements are as follows:

- The Company paid management fees of \$211,164 (2009 - \$105,701) to a director in his capacity of chief executive officer.
- The Company paid management fees of \$62,055 (2009 - \$101,042) to a director in his capacity of president.
- The Company paid or accrued consulting fees of \$143,365 (2009 - \$60,403) to an officer of the Company in the capacity of chief financial officer.
- The Company paid management fees of \$17,995 (2009 - \$39,960) to a director of the Company in the capacity of Vice President of mining development.
- The Company paid fees of \$NIL (2009 - \$34,561) to a former director for administrative services.
- Included in accounts payable is \$70,000 (2009 - \$2,136) owing to a Company in which the Chief Financial Officer is a director and to the Chief Financial Officer.
- Included in accounts payable is \$30,000 (2009 - \$Nil) owing to a Company in which the Corporate Secretary is a director.

The above transactions, occurring in the normal course of operations are measured at the exchange amount, the amount of consideration established and agreed to by the parties.

The Company acquired a mineral property through a business acquisition with related parties, as disclosed in note 5c).

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10. Segmented Disclosure

	Canada	United States	Mexico	Total
31 December 2010				
Resource properties	\$ -	2,367,646	-	2,367,646
Equipment	\$ 6,289	551,219	-	557,508
Loss for the Year	\$ 1,852,576	5,006,874	(173,317)	6,686,133
31 December 2009				
Resource properties	\$ -	249,889	-	249,889
Equipment	\$ 29,359	71,827	-	101,186
Loss for the Year	\$ 1,135,403	1,969,502	(601,380)	2,503,525

11. Income Taxes

	2010	2009
Loss for the year	\$ (6,686,000)	\$ (2,504,000)
Expected income tax (recovery)	(1,906,000)	(751,000)
Non-deductible items	(104,000)	34,000
Effect of change in tax rates	58,000	(36,000)
Effect of tax rate in subsidiary	(504,000)	-
Effect of utilization assets	231,000	-
Adjustment from prior year	(850,000)	-
Change in valuation allowance	3,075,000	753,000
Future income tax assets	2010	2009
Non-capital loss carry-forwards	\$ 3,000,000	\$ 2,141,000
Property, plant and equipment	43,000	97,000
Share issuance costs	191,000	83,000
Mineral property expenditures	2,393,000	-
Resource property acquisition	(231,000)	-
	5,396,000	2,321,000
Valuation allowance	(5,396,000)	(2,321,000)
Future tax asset	-	-

- Due to losses incurred in the current year and future expected operating results, management determined that it is more likely than not that the future income tax assets will not be realized, and accordingly, a valuation allowance has been recorded for the future income tax assets.
- The Company has tax loss carry-forwards in Canada of approximately \$5,600,000, which will expire between 2014 and 2030. The future potential tax savings associated with the loss carry-forwards has not been recognized in these financial statements.
- The Company has tax loss carry-forwards in the United States of approximately \$1,152,000, which expire between 2028 and 2030 and exploration expenditures of \$6,137,000. The future potential tax savings associated with these items have not been recognized in these financial statements.
- The Company has tax loss carry-forwards in the Mexico of approximately \$3,309,000, which expire between 2016 and 2020. The future potential tax savings associated with these items have not been recognized in these financial statements.

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12. Capital Management

The Company's capital consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing, selling assets, and incurring debt. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, high liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital to complete its exploration plan, current obligations and ultimately the development of its business, and will need to raise adequate capital by obtaining equity financing, selling assets and incurring debt. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

13. Commitments

The Company has agreements with the President, the CEO and CFO as laid out below:

The CEO, President and Director has signed a contract for a term of three years, which expires 30 April 2012. Under the terms of the contract, the President receives a monthly payment of \$10,000. This contract may be cancelled upon the Company providing six months advance notice.

The CFO has signed a contract for a term of three years which expires 30 April 2012. Under the terms of the contract, the CFO receives a monthly payment of \$5,000. This contract may be cancelled upon the Company providing six months advance notice.

The Company has entered into an operating agreement for its corporate head office premises. The annual lease commitments under the lease are as follows:

2011	73,920
2012	18,480
Total	\$ 92,400

14. Subsequent Events

There were no significant events or transactions subsequent to the year ended December 31, 2010 up to the date of the audit report.

15. Comparative Figures

Some of the comparative figures have been reclassified to conform to the current year's presentation.