

PREMIUM EXPLORATION INC.

Condensed Interim Consolidated Financial Statements

For the Three Months Ended 31 March 2011

Stated in Canadian Funds

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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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 International Financial Reporting Standards 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 fulfils 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.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

28 June 2011

"Del Steiner"

Del Steiner, President & Chief Executive Officer

"Grant T. Smith"

Grant T. Smith, Chief Financial Officer

(Unaudited)
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Condensed Interim Consolidated Statement of Financial Position

	Note	As at		
		31 March 2011	31 December 2010	01 January 2010
ASSETS				
Current Assets				
Cash and cash equivalents		\$ 4,963,852	\$ 5,329,182	\$ 1,123,951
Amounts receivable		180,024	141,392	28,222
Prepaid amounts and other current assets		357,181	67,451	59,023
		5,501,057	5,538,025	1,211,196
Non-current Assets				
Intangible assets	(5)	2,416	3,687	9,207
Property and equipment	(5)(6)	562,532	556,905	91,979
Resource property	(7)	2,367,646	2,367,646	249,889
		2,932,594	2,928,238	351,075
		\$ 8,433,651	\$ 8,466,263	\$ 1,562,271
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	(10)	\$ 563,312	\$ 495,092	\$ 230,718
Current portion of long-term debt	(0)	168,858	174,150	-
		732,170	669,242	230,718
Non-current Liabilities				
Long-term debt	(0)	183,569	171,231	-
		183,569	171,231	-
EQUITY				
Share capital	(9)	21,041,639	19,826,801	10,468,438
Share purchase warrants	(9)	4,634,833	4,959,744	1,632,936
Contributed surplus	(9)	1,785,926	1,886,241	1,546,231
Deficit		(19,944,486)	(19,046,996)	(12,316,052)
		7,517,912	7,625,790	1,331,553
		\$ 8,433,651	\$ 8,466,263	\$ 1,562,271

Nature of operations and going concern	(1)	Segmented Disclosure	(11)
Statement of compliance	(2)	Capital disclosure	(12)
IFRS conversion	(14)	Commitments	(13)

The condensed interim consolidated financial statements were approved by the Board of directors on 28 June 2011 and were signed on its behalf by:

"Delbert W. Steiner"
Delbert W. Steiner, Director

"Patrick Sam Yue"
Patrick Sam Yue, Director

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Condensed Interim Consolidated Statement of Comprehensive Income

For the three months ended	31 March 2011	31 March 2010
Continuing Operations		
EXPENSES		
Resource property expense	\$ 318,183	\$ 108,230
Wages and benefits (10)	134,301	61,039
Travel	123,701	52,226
Shareholder relations	83,519	90,868
Office and general	65,706	23,295
Stock-based compensation (10)	54,862	50,958
Professional fees	53,048	39,302
Office rent	26,046	23,521
Transfer agent and filing fees	25,530	16,335
Foreign exchange gain	5,717	10,719
Insurance	3,719	3,667
Amortization	1,924	10,922
Bank charges and interest	1,234	835
Loss from operating activities	897,490	491,917
Loss for the period	(897,490)	(491,917)
Other Comprehensive Income (Loss)	-	-
Comprehensive Income (Loss)	\$ (897,490)	\$ (491,917)
Basic and Diluted Loss per Common Share	\$ (0.01)	\$ (0.01)

(Unaudited)

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Condensed Interim Consolidated Statement of Changes in Equity

	Issued Capital		Equity			Shareholder's Equity
	Shares	Amount	Reserves Warrants	Other	Deficit	
Balance at 01 January 2010	61,750,219	10,468,438	1,632,936	1,546,231	(12,316,052)	1,331,553
Stock option exercises	406,250	71,187	-	-	-	71,187
Warrant exercises	1,963,750	397,750	-	-	-	397,750
Fair value of options exercised	-	46,658	-	(46,658)	-	-
Fair value of warrants exercised	-	70,572	(70,572)	-	-	-
Share based payments	-	-	-	50,958	-	50,958
Net loss for the period	-	-	-	-	(491,917)	(491,917)
Balance at 31 March 2010	64,120,219	11,054,605	1,562,364	1,550,531	(12,807,969)	1,359,531
Private placements	40,000,000	7,016,000	2,984,000	-	-	10,000,000
Property acquisitions	4,421,800	1,598,957	-	-	-	1,598,957
Stock option exercises	986,250	200,926	-	-	-	200,926
Warrant exercises	4,746,250	990,150	-	-	-	990,150
Agent warrant exercises	280,000	119,000	-	-	-	119,000
Agents secondary warrants exercised	140,000	-	-	-	-	-
Issuance of agents warrants	-	-	661,920	-	-	661,920
Fair value of options exercised	-	123,310	-	(123,310)	-	-
Fair value of warrants exercised	-	182,347	(182,347)	-	-	-
Fair value transfer of agent warrants exercised	-	66,193	(66,193)	-	-	-
Share issuance costs	-	(1,524,685)	-	-	-	(1,524,685)
Share based payments	-	-	-	459,020	-	459,020
Net loss for the period	-	-	-	-	(6,239,027)	6,239,027
Balance at 31 December 2010	114,694,519	19,826,803	4,959,744	1,886,241	(19,046,996)	7,625,792
Stock option exercises	1,090,000	252,400	-	-	-	252,400
Warrant exercises	745,000	232,350	-	-	-	232,350
Agent's warrants exercises	1,000,000	250,000	-	-	-	250,000
Fair value of options exercised	-	155,177	-	(155,177)	-	-
Fair value of warrants exercised	-	88,511	(88,511)	-	-	-
Fair value transfer of agent warrants exercised	-	236,400	(236,400)	-	-	-
Share based payments	-	-	-	54,862	-	54,862
Net loss for the period	-	-	-	-	(897,487)	(892,487)
Balance at 31 March 2011	117,529,519	21,041,641	4,634,833	1,785,926	(19,944,483)	7,522,917

(Unaudited)
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Condensed Interim Consolidated Statement of Cash Flows

	Three months ended 31 March 2011	Three months Ended 31 March 2010
Operating Activities		
Loss for the period	\$ (897,490)	\$ (491,917)
Items not affecting cash		
Amortization	1,924	10,922
Stock-based compensation	54,862	50,958
Foreign exchange gain/loss	766	-
	(839,938)	(430,037)
Net change in non-cash working capital		
Amounts receivable	(38,632)	(7,478)
Prepays and other current assets	(289,730)	35,880
Accounts payable and accrued liabilities	68,220	(11,065)
	(260,142)	17,337
	(1,100,080)	(412,700)
Financing Activities		
Issuance of shares	734,750	468,937
	734,750	468,937
Net increase in Cash	(365,330)	56,237
Cash position – beginning of year	5,329,182	1,123,951
Cash position – end of period	\$ 4,963,852	\$ 1,180,118

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Condensed Interim Notes to Consolidated Financial Statements

1) Nature of operations and 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 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 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.

	31 March 2011	31 December 2010
Working capital	4,733,887	4,868,783
Accumulated deficit	19,939,483	19,046,996

2) Basis of preparation – Statement of compliance

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and the for the year ending 31 December 2011. These are the Company's first condensed interim consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 10.

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These condensed interim consolidated financial statements were authorised for issue by the Board of Directors on 28 June 2011. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending 31 December 2011 could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognised on change-over to IFRS.

These condensed interim consolidated financial statements should be read in conjunction with the Company's 2010 annual consolidated financial statements prepared in accordance with pre-changeover Canadian generally accepted accounting principles ("GAAP") and in consideration of the IFRS transition disclosures included in note 14.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Notes 3(b) and 14.

3) Summary of significant accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments. The Company's principal accounting policies are outlined below:

a) Basis of presentation

These consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest's share of changes in equity since the date of acquisition. The Company has no non-controlling interests.

b) Business combinations

Business combinations that occurred prior to 1 January 2010 were not accounted for in accordance with IFRS 3 Business Combinations or IAS 27 Consolidated and Separate Financial Statements in accordance with the IFRS 1 First-time Adoption of International Financial Reporting Standards exemption discussed in Note 14.

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the

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acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

c) Foreign currency

The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the parent. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Both the parent and subsidiary use the Canadian dollar as their functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the end of reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences and other changes in the carrying amount of the security. Translation differences are recognised in the income statement and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets, such as investments in equity securities, classified as available-for-sale are reported as part of the fair value gain or loss and are included in equity.

In respect of all foreign operations, any exchange differences that have arisen before 1 January 2010, the date of transition to IFRS, are deemed to be nil and will be excluded from the determination of any subsequent profit or loss on disposal.

d) Measurement uncertainty

The preparation of these consolidated financial statements, in conformity with IFRS, 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.

Significant areas that require estimates as the basis for determining the stated amounts include assumptions related to the depletion cost of its oil and gas properties, recoverability of outstanding accounts receivable, fair values of financial instruments and the valuation allowance of future income tax assets.

Depreciation and depletion of property, plant and equipment assets are dependent upon estimates of useful lives and reserve estimates, both of which are determined with the exercise of judgement. The

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assessment of any impairment of property, plant and equipment is dependent upon estimates of recoverable amount that take into account factors such as reserves, economic and market conditions and the useful lives of assets. Provisions for environmental rehabilitations are recognised in the period in which they arise and are stated as the fair value of estimated future costs.

The Company bases its estimates and assumptions on current facts, historical experience, and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. These estimates require extensive judgement about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The following specific criteria must be met before revenue is recognised:

Production revenue

Revenue from production is recognised when all of the following conditions are satisfied:

- the specific risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the the product;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Interest income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

f) Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognised over the period that the employees earn the options. The fair value is recognised as an expense with a corresponding increase in equity. The amount recognised as expense is adjusted to reflect the number of share options expected to vest.

g) Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange gains and losses on foreign currency borrowings.

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h) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognised in the statement of income and comprehensive income.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred taxes are recorded using the statement of financial position liability method. Under the statement of financial position liability method, deferred tax assets and liabilities are recognised for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on future tax assets and liabilities of a change in tax rates is recognised in income in the period that substantive enactment occurs.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against the excess.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities that do not affect accounting or taxable profit
- goodwill

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

i) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

j) Comprehensive profit (loss)

Comprehensive profit (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit such as unrealized gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive profit (loss), components of other comprehensive income, and cumulative translation adjustments are presented in the Condensed Consolidated Statements of Comprehensive Profit (Loss) and the Condensed Consolidated Statements of Shareholders' Equity.

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k) Property, plant and equipment

Other assets are depreciated using the straight-line method based on estimated useful lives, which generally range from 5 to 7 years. Land is not depreciated.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognised as a provision.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate portion of normal overheads.

The costs of day-to-day servicing are recognised in profit or loss as incurred. These costs are more commonly referred to as "maintenance and repairs."

Financing costs directly associated with the construction or acquisition of qualifying assets are capitalized at interest rates relating to loans specifically raised for that purpose, or at the average borrowing rate where the general pool of group borrowings is utilized. Capitalization of borrowing costs ceases when the asset is substantially complete.

The depreciation method, useful life and residual values are assessed annually.

Leased assets

Leases in which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the lower of the fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses

Subsequent costs

The cost of replacing part of an item within property, plant and equipment is recognised when the cost is incurred if it is probable that the future economic benefits will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised as an expense as incurred.

Impairment

The Company's tangible and intangible assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognised when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognised in profit and loss for the period.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an

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asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversal of impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised. An impairment loss with respect to goodwill is never reversed.

l) Exploration and evaluation

The Company is currently in the exploration stage with all of its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, costs incurred to explore and evaluate properties, and the fair value, upon acquisition, of mineral properties acquired in a business combination.

Exploration and evaluation expenditures are expensed in the period they are incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination or an asset acquisition. Significant property acquisition costs are capitalized only to the extent that such costs can be directly attributed to an area of interest where it is considered likely to be recoverable by future exploitation or sale. Development costs relating to specific properties are capitalized once management has made a development decision.

From time to time, the Company may acquire or dispose of mineral interests pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded in the period that the payments are made or received. The Company does not accrue costs to maintain mineral interests in good standing.

Restoration provisions

The Company recognizes liabilities for legal obligations associated with the reclamation or rehabilitation of mineral property interests that the Company is required to settle. The Company recognizes the fair value of liabilities for such obligations in the year in which they occur or in the year in which a reasonable estimate of such costs can be made. The obligation is recorded as a liability with a corresponding charge to operations. The Company has determined that it has no restoration obligations as at 31 March 2011.

m) Short-term investments

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised. An impairment loss with respect to goodwill is never reversed.

n) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of three months or less.

o) Financial instruments

All financial instruments must be recognised, initially, at fair value on the consolidated balance sheet. The Company has classified each financial instrument into the following categories: "available for sale," "loans and receivables," and "other liabilities." Subsequent measurement of the financial instruments is based on their

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respective classification. Unrealized gains and losses on held for trading instruments are recognised in earnings. The other categories of financial instruments are recognised 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 receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities
Long term debt	Other liabilities

p) Environmental

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates is capitalized along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The costs of rehabilitation projects that were included in the rehabilitation provision are recorded against the provision as incurred. The cost of ongoing current programs to prevent and control pollution is charged against profit and loss as incurred.

q) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

r) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period.

The group derecognizes financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

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 due to the immediate or short-term maturities of the financial instruments.

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.

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 due to related parties. At 31 March 2011, the carrying value of cash is fair value. Accounts receivable, accounts payable and due to related parties approximate their fair value due to their short term nature.

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.

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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.

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. To manage this risk the Company maintains only the minimum amount of foreign cash required to fund its ongoing exploration expenditures. The Company is not exposed to significant foreign currency risk. At 31 March 2011 the Company held currency totalling the following:

Canadian Dollars	US Dollars	Mexican Pesos
4,675,118	299,640	-

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.

5) Intangibles

	Website
Cost or Deemed Cost	
Balance at 01 January 2010	\$ 20,829
Additions	-
Balance at 31 December 2010	\$ 20,829
Balance at 01 January 2011	\$ 20,829
Additions	-
Balance at 31 March 2011	\$ 20,829
Depreciation and Impairment Losses	
Balance at 01 January 2010	\$ 11,622
Depreciation for the year	5,520
Balance at 31 December 2010	\$ 17,142
Balance at 01 January 2011	\$ 17,142
Depreciation for the year	1,271
Balance at 31 March 2011	\$ 18,413
Carrying amounts	
At 1 January 2010	\$ 9,207
At 31 December 2010	3,687
At 31 December 2011	\$ 2,416

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6) Property and equipment

	Field Equipment	Computer Equipment	Furniture and Fixtures	Land	Total
Cost or Deemed Cost					
Balance at 01 January 2010	\$ 179,421	\$ 28,864	\$ 10,364	\$ -	\$ 218,649
Additions	5,008			546,321	551,329
Disposals	(179,421)	(28,864)			(208,285)
Balance at 31 December 2010	\$ 5,008	\$ -	\$ 10,364	\$ 546,321	\$ 561,693
Balance at 01 January 2011	\$ 5,008	\$ -	\$ 10,364	\$ 546,321	\$ 561,693
Additions					
Disposals					
Balance at 31 March 2011	\$ 5,008	\$ -	\$ 10,364	\$ 546,321	\$ 561,693
Depreciation					
Balance at 01 January 2010	\$ 107,594	\$ 12,443	\$ 6,633	\$ -	\$ 126,670
Depreciation for the year	27,023	4,329	1,129	-	32,481
Impairment losses					
Disposals	(134,507)	(16,772)	-	-	(151,279)
Balance at 31 December 2011	\$ 110	\$ -	\$ 7,762	\$ -	\$ 7,872
Balance at 01 January 2011	\$ 110	\$ -	\$ 7,762	\$ -	\$ 7,872
Depreciation for the period	417	-	236	-	653
Balance at 31 March 2011	\$ 527	\$ -	\$ 7,998	\$ -	\$ 8,525
Carrying amounts					
At 01 January 2010	\$ 71,827	\$ 16,421	\$ 3,731	\$ -	\$ 91,979
At 31 December 2010	\$ 4,898	\$ -	\$ 2,602	\$ 546,321	\$ 553,821
At 31 March 2011	\$ 4,481	\$ -	\$ 2,366	\$ 546,321	\$ 553,168

Property, plant and equipment are stated, in the statement of financial position, at cost less accumulated depreciation and accumulated impairment losses. Assets in the course of construction are carried at cost, less any recognized impairment loss. Depreciation of these assets commences when the assets are ready for their intended use. The cost of property, plant, and equipment includes directly attributed incremental costs incurred in their acquisition and installation.

Depreciation is charged so as to write off the cost of the asset using the straight line method over the estimate useful lives as follows:

Field equipment	3-5 years
Computer equipment	1-5 years
Furniture and fixtures	3-5 years

Depreciation is not provided for on land.

Assets held under capital lease are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

7) Resource Properties

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a) Resource property expense

Summary of resource property exploration expenditures for the period ended 31 March 2011 and the year ended 31 December 2010 follows:

	Idaho Gold Properties
Exploration Expenditures	
Administration	\$ 147,160
Assaying	603,078
Claim fees	221,271
Drilling	2,516,190
Field transport	3,703
General	44,643
Geological	681,676
Reports and mapping	8,986
Geophysical	103,495
Surface access	16,301
Period ended 31 December 2010	\$ 4,346,503
Administration	\$ -
Assaying	28,822
Claim fees	19,258
Drilling	115,782
Field transport	-
General	6,395
Geological	132,062
Reports and mapping	-
Geophysical	-
Surface access	15,864
Period ended 31 March 2011	\$ 318,183
Property acquisition costs	
Balance at 01 January 2010	\$ 249,889
Acquisitions	2,117,757
Balance at 31 December 2010	\$ 2,367,646
Balance at 01 January 2011	\$ 2,367,646
Acquisitions	-
Balance at 31 March 2011	\$ 2,367,646

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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 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.

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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
	\$	2,117,757

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
	2,117,757

8) Long-term Debt

Details are as follows:

	31 December 2010	31 December 2010
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	\$ 346,147	\$ 345,381
Current portion	(161,987)	(174,150)
Long-term debt - being the balance due 18 November 2012	\$ 184,160	\$ 171,231

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9) Share Capital

a) Authorized:

Unlimited common shares without par value.

b) Issued or allotted and fully paid:

During the first quarter of fiscal 2011 the Company issued 1,090,000 shares on the exercise of options and 1,745,000 shares on the exercise of 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 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).

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.

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Stock option activity during the year is summarized as follows:

Stock option activity	31 March 2010	Weighted average exercise price	31 December 2010	Weighted average exercise price
Balance – beginning of period	7,222,500	\$ 0.32	6,905,000	0.30
Granted	-	-	2,460,000	0.34
Expired	(150,000)	0.23	(750,000)	0.21
Exercised	(1,090,000)	0.30	(1,392,500)	0.50
Balance – end of period	5,982,500	\$ 0.31	7,222,500	0.32

Details of stock options outstanding as at 31 March 2011 are as follows:

Expiry Date	Exercise Price (\$)	31 March 2011	31 December 2010
01 March 2011	0.30	-	450,000
15 November 2011	0.20	125,000	125,000
05 March 2012	0.23	1,050,000	1,050,000
24 April 2012	0.33	330,000	330,000
24 October 2012	0.35	875,000	875,000
15 February 2013	0.66	150,000	150,000
02 May 2013	0.30	400,000	400,000
19 January 2014	0.13	800,000	800,000
05 April 2014	0.15	-	450,000
20 October 2014	0.25	100,000	350,000
30 June 2015	0.36	2,152,500	2,242,500
		5,982,500	7,222,500

The outstanding options have a weighted-average exercise price of \$0.31 (31 December 2010 - \$0.30) and the weighted-average remaining life of the options is 2.62 (31 Dec 2010 – 2.83) years. As at 31 March 2011, a total of 4,856,250 (31 December 2010 – 5,551,725) of these outstanding options had vested. As at 31 March 2011 5,832,500 (97%) (31 December 2010 – 6,286,250) of the outstanding options were in the money.

d) Warrants

Warrant activity during the period is summarized as follows:

Warrant activity	31 March 2011	Weighted average exercise price	31 December 2010	Weighted average exercise price
Balance – beginning of period	35,819,000	0.32	23,409,166	\$ 0.30
Issued	-	-	22,940,000	0.34
Exercised	(1,745,000)	0.29	(7,130,000)	0.21
Expired	-	-	(3,400,166)	0.50
Balance – end of period	34,074,000	0.33	35,819,000	\$ 0.32

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

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Details of warrants outstanding as at 31 March 2011 are as follows:

Issued	Expiry	Exercise Price	31 March 2011	31 December 2010
29 May 2009	29 May 2011	\$ 0.20 / 0.50	235,000	235,000
23 October 2009	23 April 2011	i 0.30	6,440,000	6,945,000
12 November 2009	12 May 2011	ii 0.30	6,125,000	6,125,000
05 July 2010	05 January 2012	ii 0.35	19,754,000	19,994,000
05 July 2010	05 January 2012	0.25	1,520,000	2,520,000
		\$	34,074,000	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 three month period ended 31 March 2011 and the comparative year-ended 31 December 2010, the Company issued stock options to its directors, officers, employees, and consultants and recognized stock-based compensation as follows:

	31 March 2011	31 December 2010
Total options granted	-	2,460,000
Average exercise price	\$ -	\$ 0.36
Estimated fair value of compensation	\$ -	\$ 677,000
Estimated fair value per option	\$ -	\$ 0.22

The fair value of the stock-based compensation of options to be recognized in the accounts has been estimated using the Black-Scholes Model with the following weighted-average assumptions:

	31 March 2011	31 December 2010
Risk free interest rate	1.54	1.54
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	131.00%	131.00%
Expected option life in years	5.00	5.00

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

	31 December 2010
Number of options vested	-
Compensation recognized	\$ 54,862
	\$ 509,978

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.

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10) Related Party Transactions

Related party transactions and balances not disclosed elsewhere in the financial statement, are as follows:

Related Party Disclosure

Name and Principal Position	Period ⁽¹⁾	Remuneration or fees ⁽²⁾	Share-based awards
CEO and President - Del Steiner	2011	30,542	6,600
	2010	\$ 31,227	\$ 2,000
Clearline Chartered Accountants, a Company owned or controlled by the CFO, Grant T. Smith	2011	15,877	-
	2010	15,000	-
CFO – Grant T. Smith	2011	-	4,600
	2010	-	800
Robert Komarechka – Director	2011	-	4,100
	2010	-	400
Colin Jones – Director	2011 ⁽³⁾	-	4,100
Patrick Sam Yue – Director	2011 ⁽³⁾	-	4,100
Dr. Guojian Xu - Director	2011 ⁽³⁾	\$ -	\$ 4,100

⁽¹⁾ Periods ended 31 March 2011 and 31 March 2010

⁽²⁾ Amounts disclosed were paid or accrued to the related party

⁽³⁾ No remuneration paid in the comparative period

Included in accounts payable and accrued liabilities is \$5,000 (2010 - \$Nil) due to Clearline Chartered Accountants, a Company owned or controlled by the CFO.

Included in accounts payable and accrued liabilities is \$11,181 (2010 - \$Nil) due to Del Steiner, CEO and President.

These transactions were in the normal course of operations and are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

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11) Segmented Disclosure

The following table provides segmented disclosure on assets liabilities as reviewed by management regularly:

Rounded to 000's	Canada	United States	Total
31 March 2011			
Current Assets	\$ 5,003,000	\$ 497,000	\$ 5,500,000
Long-term Assets			
Property and equipment	2,000	560,000	562,000
Intangibles	2,000	-	2,000
Resource properties	-	2,368,000	2,368,000
Liabilities			
Current Liabilities	249,000	478,000	727,000
Note payable	\$ -	\$ 184,000	\$ 184,000
31 December 2010	\$	\$	\$
Current Assets	5,489,000	49,000	5,538,000
Long-term Assets			
Property and equipment	3,000	554,000	557,000
Intangibles	4,000	4,000	4,000
Resource properties	-	2,368,000	2,368,000
Liabilities			
Current Liabilities	264,000	405,000	669,000
Note payable	\$ -	\$ 171,000	\$ 171,000

12) Capital Disclosures

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is in the business of mineral exploration and has no source of operating revenue. Operations are financed through the issuance of capital stock. Capital raised is held in cash in an interest bearing bank account until such time as it is required to pay operating expenses or resource property costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company's objectives have not changed during the period ended 31 March 2011.

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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, through a company controlled by the CFO, a contract for a term of three years, which expires 30 April 2012. Under the terms of the contract, the Company 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) IFRS Adjustments

IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated 1 January 2010:

a) Cumulative translation differences

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates for cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative translation difference and adjusted retained earnings by the same amount at the date of transition to IFRS. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

b) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before 7 November 2002, or equity instruments that were granted subsequent to 7 November 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to 1 March 2010.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated 1 March 2010:

c) Assets and liabilities of subsidiaries and associates

In accordance with IFRS 1, if a parent company adopts IFRS subsequent to its subsidiary or associate adopting IFRS, the assets and the liabilities of the subsidiary or associate are to be included in the consolidated financial statements at the same carrying amounts as in the financial statements of the subsidiary or associate. The adoption of this standard has no impact on the financial statements of the Company.

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d) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of 1 March 2010 are consistent with its Canadian GAAP estimates for the same date.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of operations, statement of comprehensive profit, statement of financial position and statement of cash flows for the quarter ended 31 May 2010 and the year ended 31 December 2010 have been reconciled to IFRS, with the resulting differences explained.

e) Share based payments

IFRS

- Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.
- Forfeiture estimates are recognised in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

Canadian GAAP

- The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognised on a straight-line basis over the vesting period.
- Forfeitures of awards are recognised as they occur.

As a result of the exemption discussed and taken under IFRS 1 Note 10(c), this change had no material impact on these financial statements.

f) Accounts payable, accrued liabilities and provisions

IFRS

- a provision is a liability of uncertain timing or amount. Provisions are disclosed separately from liabilities and accrued liabilities and require additional disclosure.

Canadian GAAP

- Accounts payable, accrued liabilities and provisions may be disclosed on the statement of financial position as a single line item.

g) Impairment

IFRS

- If indication(s) of impairment is identified, the asset's carrying value is compared to the asset's discounted cash flows. If the discounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value.

Canadian GAAP

- If indication of impairment is identified, the asset's carrying value is compared to the asset's undiscounted cash flows. If the undiscounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value.

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h) Presentation

The presentation of the cash flow statement in accordance with IFRS differs from the presentation of the cash flow statement in accordance with Canadian GAAP, as is true of the statement of changes in equity.

15) Reconciliation from GAAP to IFRS

Reconciliation of Consolidated Statement of Financial Position As at 01 January 2010

Canadian GAAP accounts	Note	Canadian GAAP	Effect of transition	IFRS	IFRS Accounts
ASSETS					
Current Assets					
Cash		1,123,951	-	1,123,951	Cash
Receivables		28,222	-	28,222	Receivables
Prepaid expenses		59,023	-	59,023	Prepaid expenses
		<u>1,211,196</u>	-	<u>1,211,196</u>	
Non-current Assets					
Intangible Assets		-	9,207	9,207	Intangible Assets
Equipment		101,186	(9,207)	91,979	Equipment
Resource property		249,889	-	249,889	Resource property
		<u>1,562,271</u>	-	<u>1,562,271</u>	
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities		230,718	-	230,718	Accounts payable and accrued liabilities
		<u>230,718</u>	-	<u>230,718</u>	
Equity					
Share capital		10,468,438	-	10,468,438	Share capital
Share purchase warrants		1,406,637	226,299	1,632,936	Share purchase warrants
Contributed surplus		1,734,782	(188,551)	1,546,231	Contributed surplus
Deficit		(12,278,304)	(37,748)	(12,316,052)	Deficit
		<u>1,331,553</u>	-	<u>1,331,553</u>	
		<u>1,562,271</u>	-	<u>1,562,271</u>	

PREMIUM EXPLORATION INC.

(Unaudited)

Canadian Funds

Condensed Interim Notes to Consolidated Financial Statements

Reconciliation of Consolidated Statement of Comprehensive Loss and Deficit for the Three Months Ended 31 March 2010

Canadian GAAP accounts	Note	Canadian GAAP	Effect of transition	IFRS	IFRS Accounts
Operating loss		(484,847)	(7,070)	(491,917)	
Loss and comprehensive loss for the period		(484,847)	(7,070)	(491,917)	
Loss per share – Basic and Diluted		(0.01)	-	(0.01)	

Reconciliation of Consolidated Statement of Cash Flows For the three months ended 31 March 2010

Canadian GAAP Accounts	Note	Canadian GAAP	Effect of transition	IFRS	IFRS Accounts
Cash Flow from Operations					
Net loss		(484,847)	(7,070)	(491,917)	
Items not involving cash					
Amortization of equipment		10,922	-	10,922	Amortization of equipment
Stock-based compensation		43,888	7,070	50,958	Stock-based compensation
		(430,037)	-	(430,037)	
Changes in non-cash working capital		17,337	-	17,337	Changes in non-cash working capital
		(412,700)	-	(412,700)	
Financing activities					
Issuance of shares for cash		468,937	-	468,937	Issuance of shares for cash
Cash resources provided by (used in)					
Change in cash for the period		56,237	-	56,237	
Cash – beginning of year		1,123,951	-	1,123,951	
Cash – End of Period		1,180,188	-	1,180,188	

PREMIUM EXPLORATION INC.

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Condensed Interim Notes to Consolidated Financial Statements

Reconciliation of Consolidated Statement of Financial Position As at 31 December 2010

Canadian GAAP accounts	Note	Canadian GAAP	Effect of transition	IFRS	IFRS Accounts
ASSETS					
Current Assets					
Cash and cash equivalents		5,329,182	-	5,329,182	Cash and cash equivalents
Amounts receivable		141,392	-	141,392	Amounts receivable
Prepaid expenses		67,451	-	67,451	Prepaid amounts and other current assets
		<u>5,538,025</u>	-	<u>5,538,025</u>	
Non-current Assets					
Intangible assets		-	3,687	3,687	Intangible assets
Property and equipment		2,367,646	-	2,367,646	Property and equipment
Resource property		557,508	(603)	556,905	Resource property
		<u>8,463,179</u>	<u>3,084</u>	<u>8,466,263</u>	
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities		495,092	-	495,092	Accounts payable and accrued liabilities
Current portion of long-term debt		174,150	-	174,500	Current portion of long-term debt
		<u>669,242</u>	-	<u>669,242</u>	
Long-term liabilities					
Long-term debt		171,231	-	171,231	Long-term debt
		<u>171,231</u>	-	<u>171,231</u>	
Equity					
Share capital		19,826,801	-	19,826,801	Share capital
Share purchase warrants		4,959,744	-	4,959,744	Share purchase warrants
Contributed surplus		1,800,598	85,643	1,886,241	Contributed surplus
Deficit		(18,964,437)	(82,559)	(19,046,996)	Deficit
		<u>7,622,706</u>	<u>3,084</u>	<u>7,625,790</u>	
		<u>8,463,179</u>		<u>8,466,263</u>	

PREMIUM EXPLORATION INC.

(Unaudited)

Canadian Funds

Condensed Interim Notes to Consolidated Financial Statements

Reconciliation of Consolidated Statement of Loss, Comprehensive Loss and Deficit for the Year Ended 31 December 2010

Canadian GAAP accounts	Note	Canadian GAAP	Effect of transition	IFRS	IFRS Accounts
Operating loss		(6,638,061)	(44,811)	(6,682,872)	
Loss and comprehensive loss for the period		(6,686,133)	(44,811)	(6,730,944)	
Loss per share – Basic and Diluted		(0.06)	-	(0.06)	

Reconciliation of Consolidated Statement of Cash Flows For the year ended 31 December 2010

Canadian GAAP Accounts	Note	Canadian GAAP	Effect of transition	IFRS	IFRS Accounts
Cash Flow from Operations					
Net loss		(6,686,133)	(44,811)	(6,730,944)	
Items not involving cash					
Amortization of equipment		46,935	-	46,935	Amortization of equipment
Stock-based compensation		462,083	47,895	509,978	Stock-based compensation
Foreign exchange (gain) loss		48,072	-	48,072	Foreign exchange (gain) loss
		(6,129,043)	3,084	(6,125,959)	
Changes in non-cash working capital		142,776	-	142,776	Changes in non-cash working capital
		5,986,267	(3,084)	5,983,183	
Investing Activities					
Acquisition of equipment		(551,329)	-	(551,329)	Acquisition of equipment
Resource property purchased		(518,799)	-	(518,799)	Resource property purchased
		(1,070,128)	-	(1,070,128)	
Financing activities					
Issuance of shares for cash		8,795,013	30,594	8,825,607	Issuance of shares for cash
Share issuance costs		2,984,000	-	2,984,000	Share issuance costs
Unit offering issuance costs		(862,768)	(30,594)	(893,362)	Unit offering issuance costs
Issuance of notes payable		345,381	-	345,381	Issuance of notes payable
Cash resources provided by (used in)		11,261,626	-	11,261,626	
Change in cash for the period		4,205,231	-	4,205,231	
Cash – beginning of year		1,123,951	-	1,123,951	
Cash – End of Period		5,329,182	-	5,329,182	



Interim Management Discussion and Analysis

For the Period Ended 31 March 2011

28 June 2011

PREMIUM EXPLORATION INC.

(Unaudited)

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Interim Management Discussion and Analysis

TO OUR SHAREHOLDERS:

This Management Discussion and Analysis (“MD&A”) supplements, but does not form part of, the Interim Consolidated Financial Statements for the quarter ended 31 March 2011. Consequently, the following discussion and analysis of the financial condition and results of operations for Premium Exploration Inc. (“Premium” or the “Company”), should be read in conjunction with the unaudited Interim Consolidated Financial Statements for the quarter ended 31 March 2011, and related notes therein, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”), consistently applied.

Discussion of the Company, its operations and associated risks are further described in the Company’s filings, available for viewing at www.sedar.com. A copy of this MD&A will be provided to any applicant upon request.

Forward-Looking Statements and Disclosure

Certain statements contained in the following MD&A and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth in the Company’s filings and herein. Additional information regarding the Company, including copies of the Company’s continuous disclosure materials is available on the Company’s website at www.premiumexploration.com or through the SEDAR website at www.sedar.com.

The table below sets forth the significant forward-looking information included in this MD&A:

Forward-Looking Information	Key Assumptions	Most Relevant Risk Factors
The new claims acquired by the Company that reside along the Orogrande Shear Zone are a significant gain for the Company	The properties will contain zones of mineralized content and hold potential for open pit mining	The properties may not contain the amount of mineralization expected by Management and may not ultimately result in a viable resource.
Future funding for ongoing operations	The Company will be able to raise these funds	The Company has disclosed that this may be difficult and failure to raise these funds will materially impact the Company’s ability to continue as a going concern
The progress in adoption of International Financial Reporting Standards	Adoption will be successful due to the planning and changeover governing the last 4 quarters.	The Company’s ability to meet the future obligations for compliance reporting requirements.

General

Premium Exploration is a mineral exploration company which explores and develops precious metals properties. The Company holds projects in varying stages of development from advanced exploration to pre-production projects in Montana and Idaho, USA.

Premium’s Idaho Gold Project (formerly called the Idaho Gold Properties) resides along a 30 Km trend, known as the Orogrande Shear Zone (OSZ). The Idaho Gold Project consists of five known mineralized zones within the OSZ: the Friday Zone; the Deadwood Zone; the Buffalo Gulch Zone; the Project X Zone and the recently discovered Monday Zone. These zones have been interpreted to be the result of a high-grade conduit and feeder model.

PREMIUM EXPLORATION INC.

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Interim Management Discussion and Analysis

Premium's Chrome Mountain Property is located within the Stillwater Igneous Complex in South-Central Montana. The property is a 1,473 hectare, PGE target, located approximately 1.5 km from Stillwater Mining Companies East Boulder Mine. Limited exploration programs in 2007 and 2008, and ~5 km of soil geochemistry along strike identified an extensive platinum and palladium anomaly. Premium's geologists have concluded that the PGE mineralization on the Chrome Mountain Property may have been formed by a similar type of process that formed the Platreef disseminated PGE-Cu-Ni and UG2 deposits in South Africa.

Significant Events and Transactions during the period

During the month of January, Premium released the results of the last four holes of the Phase Three Drill Program. One of the holes, PFR2010-21 was an in-fill hole which intercepted the Upper and Lower Bock mineralization, terminating in the Friday Fault. This hole appears to have been drilled into a "mineralized shoot", a feature commonly associated with Shear Zone deposits. The results of this hole substantiates Premium's geological model and confirms the continuity of the Friday Fault.

In February 2011, Premium announced a third gold discovery, the second Monday Zone. The widest step-out drill-hole to the south, PFR2010-22, intercepted the Monday Fault Zone, along the same geophysical-structural anomaly as previously released PFR2010-19. The second Monday Zone is a confirmation drill-hole, 900m along strike to the south of the first Monday Zone. It is interpreted as being contiguous to the first Monday Zone discovery based upon geophysics, mineralization, geochemistry, and alteration. This third zone successfully confirmed the Company's exploration strategy of drilling structures identified through geophysics.

Premium also enhanced their engineering and geological team in preparation for the preliminary assessment of the Friday-Petsite deposit. The Company announced the addition of Robert Todd, P.Eng., Mark Pfau, L.P.Geo., and Doug Parker, P.Geo. to the team. Robert Todd, P.E., is a professional mine engineer registered in Nevada, Idaho and Montana and is responsible for the Preliminary Assessment of the Friday-Petsite Deposit. Mr. Todd brings over 30 years of engineering; mine design, underground, open pit, environmental permitting, operational compliance, precious metals recovery, and refining experience to Premium.

Mark Pfau, MSc., was brought on board as the Independent Qualified Person for the updated resource estimate for the Friday-Petsite Deposit. Mr. Pfau is an international economic geologist with 26 years of experience in base metals, precious metals, and coal. Mr. Pfau was involved in the original resource estimate of the Friday-Petsite deposit for Kinross Gold Corp in 1999. He focuses on advanced project management, resource and reserve expansion, NI-43-101 issues, and bridging the gap between exploration and production.

Doug Parker brings over 30 years of experience as a Hydrologist and Geologist to Premium and will be assisting with the Preliminary Assessment, specializing in the areas of water quality, environmental engineering and permitting. He is a Registered Professional Geologist in Washington and has extensive experience with mine related issues including both underground and open pit mining, water quality, wetlands, threatened-endangered species, and expertise coordinating with regulatory agencies.

In March, the Company reported the geochemical results from over 4,500 soil samples taken from the Deadwood Zone. The samples were collected from previously unexplored territory within the Deadwood Zone in an effort to refine targets identified by airborne geophysics for the Phase-Four Drill Program. The results are comparable to the gold-in-soil anomalies within the Friday and Buffalo Gulch Zones, which correlate with known mineralization along the Orogrande Shear Zone.

PREMIUM EXPLORATION INC.

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Interim Management Discussion and Analysis

The revised NI 43-101 resource estimate on the Company's Friday-Petsite deposit located within the Friday Zone was announced in late March. The Friday-Petsite resource resides within 1.4 Km of strike length and is comprised of three zones.

The Main Zone hosts: 343,000 Indicated oz Au
(800 m of 1.4 Km strike length) 789,000 Inferred oz Au
North and South Zones host: 100,000 Inferred oz Au

Cut-Off Grade (g/t Gold)	Classification	Tonnes	Grade (g/t Gold)	Ounces Gold
1.00	Indicated	2,918,000	1.56	146,000
0.75	Indicated	5,778,000	1.21	225,000
0.50	Indicated	11,818,000	0.90	343,000
0.25	Indicated	23,404,000	0.64	482,000
0.00	Indicated	38,120,000	0.44	542,000

Cut-Off Grade (g/t Gold)	Classification	Tonnes	Grade (g/t Gold)	Ounces Gold
1.00	Inferred	9,312,000	1.60	479,000
0.75	Inferred	16,641,000	1.28	683,000
0.50	Inferred	26,378,000	1.04	879,000
0.25	Inferred	37,077,000	0.84	1,007,000
0.00	Inferred	45,502,000	0.71	1,043,000

The mineral resource of this project is an Inferred and Indicated resource, consistent with the CIM definition of an Inferred and Indicated resource as referenced in NI 43-101. The NI 43-101 technical report on the Friday-Petsite Zone on Premium's Idaho Gold Project, in Idaho, USA, was prepared for Premium by Mark I. Pfau, MSc. of Tellurian Exploration, Inc. Mr. Pfau is an Independent Qualified Person as defined under NI 43-101. The technical report has an effective date of March 28, 2011 and was filed on SEDAR on May 12, 2011.

Premium also announced the start of the Phase-Four Drill Program in late March. The main focus of the program is to demonstrate the district size potential of the Idaho Gold Project by discovering and delineating new zones of mineralization. Recent soil sampling results along with geophysics will be used to refine the drill targets for the program. West Core Drilling out of Elko, Nevada, has been contracted to provide four drills; two of which have started. One drill is located at the Friday Zone and the second drill is located at the Buffalo Gulch Zone testing an anomaly identified by IP geophysics. The Phase-Four Program will include over 100 drill-targets, up to 10,000 soil samples and additional geophysics. Premium will focus its efforts on continuing to delineate the current resource at the Friday-Petsite Project and refine the known zones of mineralization along the Orogrande Shear Zone.

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Interim Management Discussion and Analysis

Events subsequent to 31 March 2011

In early April, Premium announced a stock option grant of 100,000 stock options to certain consultants of the Company. The options are exercisable for a period of five years at a price of \$0.65. Any shares issued on the exercise of these stock options will be subject to a four-month hold period from the date of the grant.

Toward the end of April the Company announced that it had received gross proceeds of \$2,143,500 from the exercise of 7,145,000 warrants. The funds pertain to a private placement offering in September 2009 which closed in two tranches. The first tranche closed October 23, 2009 and the second tranche closed November 12, 2009. All warrants from the first tranche were exercised. The warrant exercise completed the funding for the \$7,000,000 Phase-Four Exploration Program.

The remaining funds from the second tranche of the September 2009 financing were received in May and the Company announced that it had received gross proceeds of \$1,912,500 from the exercise of 6,375,000 warrants. The proceeds from the warrant exercise will supplement the Company’s current working capital position and will be used to fund exploration work on Premium’s flagship property, the Idaho Gold Project.

In mid-May, Premium announced over-limit silver results for the previously released Phase-Three drill-hole PFR2010-22 (see release Feb 8th,2011). PFR2010-22 returned 3 elevated silver assays grading 153, 100, and 93 g/t Ag in its new Monday Zone discovery along the Idaho Gold Project, 100% owned by Premium.

Hole ID	Zone	From M	To M	Length M	Au g/t	Ag g/t
PFR2010-22	Monday	332.8	333.8	1.0	0.6	153.0
		608.4	609.3	0.9	0.4	100.0
		623.0	623.9	0.9	0.1	91.0

The high silver values are a unique characteristic of the Monday Zone. The silver along the Monday Zone is a new discovery at the Idaho Gold Project and follow-up drilling on the Monday Zone is planned in the Phase-Four 2011 drill program. In late May, Premium provided an update of its Phase-Four Exploration program:

Buffalo Gulch Zone:

Two drill holes have been completed in 332.5 metres, and both holes have encountered alteration and sulphide mineralization consistent with the Orogrande Shear Zone (“OSZ”). The target zone at Buffalo Gulch is 4 km of the 12 km correlating Gold-in-Soil and Airborne Geophysical anomalies along the main 30 km trend. Drilling at Buffalo Gulch is designed to test the same geological model tested at the Friday Zone, 20 km south along the 30 km trend,

Friday Zone:

Seven drill holes have been completed in 2,758.3 metres; all holes have encountered alteration and sulphide mineralization consistent with the “OSZ”. Drilling is designed to locate and intersect the Friday Fault at depth, along strike to the north and south to test 5km of potential strike length identified by gold-in-soils and geophysics. The first 7 holes are located within the current Friday-Petsite resource footprint. Premium intends to continue stepping out along strike, out of the resource footprint.

(Unaudited)

Canadian Funds

Interim Management Discussion and Analysis

Deadwood Zone:

A total of 550 gold-in-soil samples in the +10,000 sampling program have been taken along the western portion of the Deadwood Zone to further refine drill targets planned for the Phase-Four drill program. This first stage of sampling is focused on the new “Lucky Strike Structure” previously announced March 29th 2011. The second stage of the gold-in-soil sampling program will be focused to the west and south of the Friday-Petsite resource following the OSZ south to the X Zone.

In late May, announced drill results and the 4th gold discovery on the Idaho Gold Project (IGP). The discovery is 20 km along strike to the north from the initial discoveries on the IGP.

Buffalo Gulch Drilling:

Drill-hole BG2011-1 intersected 0.5 g/t gold over 26.2 meters of oxide mineralization consistent with the historic 111,000 oz indicated resource (4.8 Mt grading 0.8 g/t Au @ 0.4 g/t cut-off). It demonstrates the continued growth potential of the deposit.

It also intersected 1.3 g/t gold over 4.6 meters within the sulphides. It intersected an interpreted mineralized structure identified by IP Dipole-Dipole geophysics and is considered secondary to a much larger structure nearby. BG2011-1 was drilled vertically to a total depth of 266.7 meters and terminated in anomalous mineralization.

Drill-Hole	Zone	From (m)	To (m)	Interval	Au g/t
BG2011-1	Buffalo Gulch	77.4	103.6	26.2	0.5
		88.1	92.7	4.6	1.3
BG2011-2	Buffalo Gulch	44.5	65.8	21.3	.5

**The gold grade calculation is a weighted mean with no top cut, and no bottom cut. The grade calculation includes internal waste and low grade sections. *True Widths for BG2011-1 are estimated to be 65-75% of the drilled interval from 77.4m to 103.6m and the unknown for the interval from 88.1m to 92.7m. The True width for the drilled interval in BG2011-2 is estimated to be 20-30%.*

Drill-hole BG2011-2 intersected 0.5 g/t gold over 21.3 meters within the oxide portion of the Buffalo Gulch historic resource. It did not reach the structural target identified by the IP geophysics as it was halted due to weather conditions. The target zone at Buffalo Gulch comprises 4 km of the 12 km correlating gold-in-soil and airborne geophysical anomalies along the 30 km trend. Previous operators defined the historic resource drilling 0.5 km of strike along the gold-in-soil trend. They defined the deposit via shallow, vertical RC drilling and did not investigate potential high-grade structural mineralization at depth or along strike.

Disclaimer: All estimates of historic gold resources are historical in nature, predate and are noncompliant with NI 43-101. Premium is not treating the historical estimate as current mineral resources or reserves. Premium has not undertaken any independent investigation of the resource estimates nor has it independently analyzed the results of the previous exploration work in order to verify the resources, and therefore the historical estimates should not be relied upon. The historical classes used by Idaho Gold Corporation, a subsidiary of Bema Gold, are different from current CIM classes, however, they might be comparable to the CIM inferred or indicated resource classes. Previous operators defined the historic resource drilling 0.5 km of the gold-in-soil trend. They defined the deposit via shallow, vertical RC drilling and did not investigate potential high-grade structural mineralization at depth.

(Unaudited)

Canadian Funds

Interim Management Discussion and Analysis

Friday Zone Drilling:

Step-out drilling encountered gold mineralization 100 meters south along strike of the Main Zone of the the Friday-Petsite resource.

Drill-Hole	Zone	From (m)	To (m)	Interval	Au g/t
PFR2011-1	Friday	21.0	57.6	36.6	1.0
PFR2011-2	Friday	75.9	101.7	25.8	1.0

** The gold grade calculation is a weighted mean with no top cut, and no bottom cut. The grade calculation includes internal waste and low grade sections.*True Widths are estimated to be between 40% and 60% of the drilled interval.*

Drill-holes PFR2011-1 and PFR2011-2 were drilled as a fan to confirm the orientation and depth of mineralization. Both holes were drilled from the same collar to the east with PFR2011-1 at a -60 degree dip and PFR2011-2 at a -80 degree dip. The orientation and depth of mineralization is consistent with the Friday-Petsite resource and is considered to be continuous with the Friday-Petsite resource.

The Issuer announced that as a result of a review by the British Columbia Securities Commission (“BCSC”), the BCSC identified compliance issues in the Company’s website, Corporate Presentation, IR material and MD&A. The BCSC noted the following: that the Company reported a current resource but did not disclose the effective date, source & key assumptions of the resource; that Premium had links to third party IR material which added inferred mineral resources to other categories; and that the Company discloses potential exploration targets for their Idaho Gold Project, but does not include the required disclosure language. As a result of the review, Premium updated its Corporate Presentation and website and included the required disclosure language, deleted non-compliant third party links, and disclosed the author, effective date and SEDAR filing date of the current NI 43-101 Technical Report on the Company’s Friday-Petsite Zone.

Disclaimer

The Company wishes to state that the potential additional resources are conceptual in nature only, and that there has been insufficient exploration to define an increased mineral resource outside of the current NI 43-101 compliant resource. Furthermore, it is uncertain if further exploration will result in additional mineral resources. Estimates for potential additional resources are reported as exploration targets based on the presence of step-out mineralized drill holes, known mineralized zones open along strike and depth and geophysically anomalous areas from data received by the Company.

PREMIUM EXPLORATION INC.

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Interim Management Discussion and Analysis

Mineral Exploration

Chrome Mountain, Montana, USA

The Chrome Mountain Project is a PGE target consisting of 182 contiguous claims in 1,473 hectares along 10Km of strike length on the Stillwater Complex in south-central Montana. A limited amount of exploration has been completed on the property and includes a 5Km long PGE-in-soil anomaly; drilling of 19 holes during 2007 and 2008; surface mapping; and airborne and ground geophysics.

Drilling confirmed potential PGE mineralization along the A-B Chromitite Zone with intervals of up to 1.0 g/t PT+PD over 116.7 m with higher-grade intervals of up to 4.0 g/t PT+PD over 7.3 m. The A-B Chromitite Zone is characterized by high-grade narrow horizons within a broad envelope of disseminated lower-grade mineralization.

The 2011 exploration program has been designed to follow-up on the A-B Chromitite Zone. A conceptual model has been developed by Premium and is designed to test for lateral continuity along strike. Exploration will include 5Km of PGE-in-soil sampling; 5 Km² of surface geological mapping; and 5,000 m of drilling.

Idaho Gold Project, Orogrande Shear Zone – Idaho, USA

The Orogrande Shear Zone is a trend of gold mineralization +30 Km in strike length and hosts many of the 219 mapped prospects which make up “Elk City Gold Belt”. This includes at least 20 minor historic producers from the early 20th century. Extensive placer mining has taken place along the streams which parallel and cross the Orogrande Shear Zone. The OSZ is believed to be the mineralizing conduit for the entire 30 Km strike length of the geologic structure. A +12,000 meter drill program, covering Phases One, Two and Three was completed in Q4 2010. Premium now controls 1,504 claims over the OSZ which covers 12,472 hectares and is comprised of 5 zones; Buffalo Gulch Zone, Deadwood Zone, Friday Zone, the Monday Zone, and the Project X Zone.

Buffalo Gulch Zone - Idaho, USA

Buffalo Gulch is the most northern zone along the 30 km Orogrande Shear Zone in North-Central Idaho under Premium’s control and hosts an historic 111,000 oz Indicated gold resource in 4.8 Mt @ 0.8 g/t Au (0.4 g/t cutoff)* which was once fully permitted for open-pit production in 1991 by Bema Gold Inc. The existing oxide deposit, as delineated by previous operators, is open along strike and depth and is located within 0.5 Km of the 4.0 Km of soil and geophysical anomalies. To date, no drilling at depth beyond 150 meters has been conducted to test high-grade sulphide potential.

The Buffalo Gulch Zone is defined by a 4.0 Km north-south trending gold-in-soil anomaly with only a small portion of the anomaly being drill tested by previous operators. In November of 2010, Premium announced that a 1.5-km ground magnetic geophysical survey identified the west-bounding “Monday Fault”, which correlates with the north-south trending 4.0 Km gold-in-soil anomaly. Mineralization, gold-in-soils, and ground magnetic geophysical anomalies coincide with the main north-south trending +30Km OSZ.

The historic resource is located 0.5 Km of the 4.0 Km gold-in-soil anomaly. The Buffalo Gulch Zone will be further explored in the Phase Four Drill Program with gold-in-soil sampling, geophysics, and drilling.

**The historic resources as calculated by the Bema Gold subsidiary “Idaho Gold Corporation” were prepared prior to the introduction of NI43-101, but were carried out in accordance with established practice at that time. Idaho Gold estimated “proven and probable geologic reserves” of oxide material to a depth of 220 feet as 4.839 million short tons at a grade of 0.023 ounce/ton containing 110,759 troy ounces of gold*.*

PREMIUM EXPLORATION INC.

(Unaudited)

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Interim Management Discussion and Analysis

**The resource estimate was reviewed by Micon International in 2004, and they concluded that the Buffalo Gulch property had historical Mineral Resources of about 5 million tons averaging 0.023 oz/ton Au (4.5 million tonnes at 0.8 g/t Au), comparable to an indicated resource. No cut-off grade was provided.*

**Estimates of gold resources/deposits are historical in nature, predate and are noncompliant with NI 43-101. Premium is not treating the historical estimate as current mineral resources or reserves. Premium has not undertaken any independent investigation of the resource estimates nor has it independently analyzed the results of the previous exploration work in order to verify the resources, and therefore the historical estimates should not be relied upon. The historical classes used by Idaho Gold are different from current CIM classes, however, they might be comparable to the CIM inferred or indicated resource classes.*

Buffalo Gulch Historic Metallurgical Work

Previous operators include Bema Gold, Cyprus-Amax, and Kinross Gold Corp in the 1990's and left the area due to low gold prices (~\$350/oz.). As part of its exploration program on this prospect Bema Gold Corporation conducted bottle-roll and column testing on the resource with the latter showing 75% recovery of the gold in oxide material after 25 days. The bottle-roll tests showed recoveries of both oxidized and sulphide material to be in the range of 75% to 90%.

Successful cyanide bottle roll extraction tests and column tests culminated in two pilot scale heap leach tests in the field and confirmed the favorable leaching parameters for the mineralized material. Based on the positive tests from these results; economic and production analysis were conducted by the Bema Gold subsidiary "Idaho Gold Corporation" in 1990; independent engineering group MRDI in 1991; independent engineering group MRDI in 1996; and independent engineering group Golder and Associates in 2006. The analysis by Idaho Gold and MRDI were prepared prior to the introduction of NI 43-101, but were carried out in accordance with established practice at that time.

The prior economic analyses did not apply current parameters or assumptions, and they should not be relied on. Analyses done subsequent to the introduction of NI 43-101 were not based on a current resource estimate, as required by NI 43-101. The company previously disclosed basic economic parameters for Buffalo Gulch on its website; however, these were premature and should not be relied upon.

Deadwood Zone - Idaho USA

The Deadwood Zone is located between Buffalo Gulch on the northern extension of the OSZ and the Friday Zone on the southern extension of the OSZ.

Several historic mines are present within this area and Deadwood is surrounded by historically worked placer deposits. There is an historic 5 km geochemical soil anomaly along strike and a number of shallow RC drill-holes which have been drilled by previous operators. Deadwood hosts an historic deposit of Indicated and Inferred ounces of gold:

38,940 Indicated oz gold in 1.6 Mt at 0.75 g/t Au with 0.4 g/t Au cut-off;

18,480 Inferred oz gold in 0.7 Mt at 0.75 g/t Au with 0.4 g/t Au cut-off

The historic deposit sits in 1.0 Km of the 5 Km soil geochemical anomaly. The anomaly remains open in all directions and has yet to be drilled by Premium utilizing the new geological model.

The 2011 Phase-4 drill plan for the Deadwood Zone will be an aggressive campaign to discover and delineate numerous mineralized structures. Additional soil sampling and geophysics are also planned.

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****All estimates of gold resources/deposits are historical in nature, predate and are non-compliant with NI 43-101. This historic resource estimate was reviewed by Micon International in 2004. Premium is not treating the historical estimate as current mineral resources or reserves. Premium has not undertaken any independent investigation of the resource estimates nor has it independently analyzed the results of the previous exploration work in order to verify the resources, and therefore the historical estimates should not be relied upon.***

Friday Zone – Friday-Petsite Deposit - Idaho, USA

The property is located in the vicinity of Elk City, Idaho and was comprised of two properties Friday-Petsite and the Dixie Property (the Dixie Property is discussed separately). The Friday-Petsite property includes two past-producing mines locally known as the Orogrande Mine and the Frisco Pit.

The Company developed a 12,000 meter (40,000 ft.), three phase drill program designed to systemically test the 28 kilometre Orogrande Shear Zone (OSZ) modelled as the conduit for the high grade zones and feeder for the disseminated gold zones.

Premium added 1,176 new claims to the southern end of the OSZ, increasing the Company's land package by 300%. Premium controls 1,504 unpatented claims, 5 patented claims, and one State of Idaho Minerals Lease over 12,472 hectares (124.72 sq Km) which covers a large portion of the +30 Km Orogrande Shear Zone trend.

Phase One Drill Program

The Phase One Program consisted of seven HQ core holes which were drilled to a depth of 153 meters. Total footage drilled in Phase One equalled 853.4 meters. This phase of drilling was designed to delineate the high-grade component of the resource, test the continuity of mineralization of the OSZ along strike to the north and south of the existing resource, and to provide minor in-fill drilling. The geologic model developed by Premium confirmed a steep easterly dip and intersected the Orogrande Shear Zone to the north and south of the main zone of mineralization.

Phase Two Drill Program

The Phase Two Drill Program totaled 1,969.9 meters and consisted of six HQ core holes. The program further delineated the northern and southern extension of mineralization for additional strike length of 560 meters; 185 meters north and 375 meters south of the existing resource as well as down dip to a depth of 275 meters. The drill holes in this phase encountered the similar geology, structures and mineralization as seen in the Phase I program and all holes intercepted mineralization at depth and along strike. The results of the Phase II program led Premium's team to a better understanding of the geologic and structural controls to mineralization. The mineralization encountered in the drill holes consists of a high grade core within a broad envelope of lower grade gold mineralization which has been intruded by a post mineral Dacite Dike.

Phase Three Drill Program

The Phase Three Drill Program was completed in December 2010 and totalled 10,354 meters within 24 drill holes (one hole was lost due to ground conditions). Premium has validated its proven exploration methodology which has resulted in 100% drill success rate and has now increased the strike length of the mineralized footprint between the North, Main and South zones along the Friday Fault to 1.4 km, while increasing the Lower Block strike length to 500 meters.

Premium's Phase Three program focused on the development of the Lower Block of the Friday-Petsite deposit; the expansion of the current resource and additional exploration for zones of gold mineralization along the Orogrande

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Shear Zone. Geophysics, soil geochemistry and drilling indicate that the North, Main and South Zones making up the current block model are potentially contiguous.

In late May, Premium announced an updated NI 43-101 report on the Friday-Petsite Zone. The report was prepared for Premium by Mark I. Pfau, MSc. of Tellurian Exploration, Inc. Mr. Pfau is an Independent Qualified Person as defined under NI 43-101. The technical report has an effective date of March 28, 2011 and was filed on SEDAR on May 12, 2011.

The current Friday-Petsite resource resides within 1.4 Km of strike length and is comprised of the following two categories:

343,000 oz Au Indicated Resource hosted in 11.8 Mt at 0.9 g/t Au with a 0.5 g/t Au cut-off

879,000 oz Au Inferred Resource hosted in 26.4 Mt at 1.04 g/t Au with a 0.5 g/t Au cut-off

Monday Zone – Idaho, USA

The Monday Zone mineralization discovered in December 2010 was the first time Premium utilized its exploration strategy outside of the Friday Zone. Drilling encountered the “Monday Fault”, a west-bounding fault of the OSZ parallel to the east-bounding “Friday Fault”:

Premium’s geologists believe that the Monday Fault has the potential to host another gold zone 300m west of, and parallel to, the existing inferred gold resource along the Friday Fault. Geophysics indicates an additional +2 km of potential mineralized strike length along the Monday Fault. Gold-in-soil sampling will be used to locate the Monday Zone at surface with future drilling being targeted along strike to the north and south during the Phase Four Drill Program.

Structurally controlled mineralization along the parallel Monday and Friday faults correlate with airborne geophysical and gold-in-soil anomalies, clearly demonstrating the large district potential of the OSZ over 30 km of strike.

Aurum Zone – Idaho, USA

Aurum is situated along the OSZ and links the Deadwood Zone to the north with the Monday and Friday Zones to the south. The Aurum Zone hosts a number of potentially mineralized structures identified by airborne geophysics and will be further explored in the Phase Four Program of 2011 with gold-in-soil sampling, geophysics, and drilling.

Project X Zone – Idaho, USA

Project X is south of the Monday and Friday Zones and is situated at the southern-most end of the interpreted OSZ. Airborne geophysics has revealed potentially mineralized structures in the Project X Zone which will be further explored in Phase Four of 2011 with gold-in-soil sampling, geophysics, and drilling.

Dixie - Idaho, USA

The Dixie Property is located to the south of the Project X Zone. It may be the southerly extension of the Orogrande Shear Zone however there is insufficient information to make this assumption. The underlying geology is that of igneous rocks intruding early Precambrian metamorphic rocks. Anomalous gold areas have been identified by stream sediment and soil geochemical sampling. Premium intends to complete a general exploration program to investigate the anomalous areas in order to locate targets for drilling. The property was classified by Micon as an early-stage exploration property where geochemical surveys have outlined areas of anomalous gold values.

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Results of operations

The loss for the period ended 31 March 2011 was \$897,490 which compares to a loss of \$497,917 in same quarter of 2010.

Exploration expenditures (rounded to the nearest '000)	3 months 2011	3 months 2010
	<u>\$ 318,000</u>	<u>\$ 108,000</u>
Variance increase (decrease)	\$ 210,000	

Resource property expenditures have increased significantly over the comparative period. This is a direct result of increased exploration and drilling activity on the Friday-Petsite property. The Company completed financing late in the second quarter of 2010 and has aggressively been pursuing the planned drilling program. This variance is as expected by management and consistent with all published activities.

Management fees (rounded to the nearest '000)	3 months 2011	3 months 2010
	<u>\$ 134,000</u>	<u>\$ 61,000</u>
Variance increase (decrease)	\$ 73,000	

The increase is a result of increased activity through the period, and the requirement for a larger management team resulting from the activity in exploration

Travel (rounded to the nearest '000)	3 months 2011	3 months 2010
	<u>\$ 124,000</u>	<u>\$ 52,000</u>
Variance increase (decrease)	\$ 72,000	

Travel expense has increased over 2010 as a result of growing exploration activity within the Company, calling for key management personnel to travel on location more than they have in the past.

Office and miscellaneous (rounded to the nearest '000)	3 months 2011	3 months 2010
	<u>\$ 66,000</u>	<u>\$ 23,000</u>
Variance increase (decrease)	\$ 43,000	

Office and miscellaneous expenses have increased in response to the growing exploration activity to fill the need of greater support from head office.

Professional fees (rounded to the nearest '000)	3 months 2011	3 months 2010
	<u>\$ 53,000</u>	<u>39,000</u>
Variance increase (decrease)	14,000	

The fees in the period have increased over the comparative period as a result of activity on the Company's properties as it relates to US compliance.

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Summary of Quarterly Results

Financial Data for the Last Eight Quarters

Three Months Ended	IFRS Mar-11	IFRS Dec-10	IFRS Sep-10	IFRS Jun-10	IFRS Mar-10	GAAP Dec-09	GAAP Sep-09	GAAP Jun-09
Total Revenues	-	-	-	-	-	-	-	-
Loss from continuing operations	897,490	2,264,545	2,210,960	1,365,198	491,917	\$1,301,546	\$444,885	\$313,830
Income (loss) for the period	897,490	2,264,545	2,210,960	1,365,198	491,917	\$1,301,546	\$444,885	\$313,830
Loss per share (Basic and diluted)	(0.01)	(0.06)	(0.02)	(0.03)	(0.01)	(0.02)	(0.01)	(0.01)
Total assets	5,501,057	8,466,263	10,520,045	1,503,735	1,579,184	1,211,196	519,231	798,830
Working capital	4,733,887	4,868,783	7,048,625	802,728	1,019,378	980,478	(741,213)	(398,304)

The variance between March 11 and December 10 is primarily a result of extreme weather conditions which slowed the progress of the drill program.

The variance between September 10 and June 10 and the preceding arose principally because of increased exploration activity after the completion of the June financing, which allowed the Company to put extra drills on the site.

The quarter ended June 10 was higher than the preceding quarter because of roll-out of the drill program in spring.

The quarter end Dec 2009 was higher because of the fall drilling program

Outstanding Shares

As at 31 March 2011, the Company had 117,529,519 common shares issued and outstanding versus 64,120,219 common shares issued and outstanding at 31 March 2010. The fully diluted amount of 157,586,019 represents options of 5,982,500 and warrants of 34,074,000.

As at the date of this report, the Company had 130,289,519 common shares issued and outstanding. The fully diluted amount of 157,586,019 represents options of 5,932,500 and warrants of 21,364,000.

Financial Position and Liquidity

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, and notes payable. The Company has no speculative financial instruments, derivatives, forward contracts or hedges.

Currency & Credit Risk – All of the Company's Canadian cash is held in an interest bearing account at a major bank and such balances earn interest at market rates. The Company also maintains cash in US\$ and the Mexican Peso. The cash balances and payables that are denominated in foreign currencies are subject to currency risk due to fluctuations in the exchange rate between the currencies. To manage this risk, the Company maintains only the minimum amount of foreign cash required to fund its on-going exploration expenditures.

Fair Value – As at 31 March 2011 and 2010, the carrying values of receivables, accounts payable and accrued liabilities and notes payable approximate their fair values due to their short term to maturity.

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It is management's opinion that the Company is not exposed to significant credit, interest rate, liquidity or market risks in respect of these financial instruments. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the quarter.

Capital Resources and 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, through a company controlled by the CFO, a contract for a term of three years, which expires 30 April 2012. Under the terms of the contract, the Company 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	74,000
2012	18,000
Total	\$ 92,000

Share capital

The table below presents the Company's common share data as of 31 March 2011.

	Number of common shares
Common shares, issued and outstanding	117,529,519

The Company currently has no options or warrants outstanding as of 31 March 2011 or as at the date of this report.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as at 31 March 2011 and as at the date hereof.

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Related Party Transactions

Related party transactions and balances not disclosed elsewhere in the financial statement, are as follows:

Name and Principal Position	Period ⁽¹⁾	Remuneration or fees ⁽²⁾	Share-based awards
CEO and President - Del Steiner	2011	30,542	6,600
	2010	\$ 31,227	\$ 2,000
Clearline Chartered Accountants, a Company owned or controlled by the CFO, Grant T. Smith	2011	15,877	-
	2010	15,000	-
CFO – Grant T. Smith	2011	-	4,600
	2010	-	800
Robert Komarechka – Director	2011	-	4,100
	2010	-	400
Colin Jones – Director	2011 ⁽³⁾	-	4,100
Patrick Sam Yue – Director	2011 ⁽³⁾	-	4,100
Dr. Guojian Xu - Director	2011 ⁽³⁾	\$ -	\$ 4,100

⁽⁴⁾ Periods ended 31 March 2011 and 31 March 2010

⁽⁵⁾ Amounts disclosed were paid or accrued to the related party

⁽⁶⁾ No remuneration paid in the comparative period

Included in accounts payable and accrued liabilities is \$5,000 (2010 - \$Nil) due to Clearline Chartered Accountants, a Company owned or controlled by the CFO.

Included in accounts payable and accrued liabilities is \$11,181 (2010 - \$Nil) due to Del Steiner, CEO and President.

These transactions were in the normal course of operations and are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

Financial Instruments

Fair Value – The carrying values of receivables and accounts payable and accrued liabilities approximate their fair values due to their short term to maturity. Cash is measured on the balance sheet at Level 1 of the fair value hierarchy.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Currency risk – All of the Company's Canadian cash is held in interest bearing accounts at major banks and such balances earn interest at market rates. The Company also maintains cash in the US\$ and the Mexican Peso. The cash balances and payables that are denominated in foreign currencies are subject to currency risk due to fluctuations in the exchange rate between the currencies. To manage this risk the Company maintains only the minimum amount of foreign cash required to fund its ongoing exploration expenditures. At 31 March 2011 the Company held currency totalling Cdn \$4,675,118; and US \$299,640. Accounts payable are settled in a timely manner. It is management's opinion that the Company is not exposed to significant currency risk. The Company does not use derivative instruments to reduce upward and downward risk associated with foreign currency transactions.

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

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accounts. The Company's bank accounts are held with major banks in Canada accordingly the Company believes it not exposed to significant credit risk.

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. The Company has cash available to meet all current obligations.

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.

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.

Price risk - Price risk is the risk that the value of a security will decline in the future. The Company is not exposed to price risk.

Disclosure for venture issuers without significant revenue

Consistent with other companies in the mineral exploration industry, Premium has no source of operating revenue. The Company's 31 December 2010 Consolidated Financial Statements provide a breakdown of the general and administrative expenses for the period under review and an analysis of the capitalized and expensed exploration and development costs incurred on its mineral properties (-).

Investor Relations Activities

With respect to public relations, the Company's policy is to provide information from its corporate offices to investors and brokers directly.

Management

Premium is dependent upon the personal efforts and commitments of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of Premium could result, and other persons would be required to manage and operate the Company.

Risk Factors

Companies operating in the mining industry face many and varied kinds of risks. While risk management cannot eliminate the impact of all potential risks, the Company strives to manage such risks to the extent possible and practical. Following are the risk factors most applicable to the Company:

Exploring and developing mineral resource projects bears a high potential for all manner of risks. Additionally, few exploration projects successfully achieve development due to factors that cannot be predicted or foreseen. Moreover, even one such factor may result in the economic viability of a project being detrimentally impacted such that it is neither feasible nor practical to proceed. The Company closely monitors its activities and those factors that could impact them, and employs experienced consulting, engineering, insurance and legal advisors to assist in its risk management reviews.

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Although the Company has taken steps to verify the 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 title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

At present the principal activity of the Company is the exploration and development of gold, silver and PGM resource properties. The feasible development of such properties is highly dependent upon the price of the gold, silver and PGM commodities. A sustained and substantial decline in these commodity prices could result in the write-down, termination of exploration and development work or loss of its interests in identified resource properties. Although such prices cannot be forecasted with certainty, the Company carefully monitors factors that could affect these commodity prices in order to assess the feasibility of its resource projects.

DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer ("CFO") are responsible for designing internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with Canadian GAAP. The design of the Company's internal control over financial reporting was assessed as of the date of this Management Discussion and Analysis.

Based on this assessment, it was determined that certain weaknesses existed in internal controls over financial reporting. As indicative of many small companies, the lack of segregation of duties and effective risk assessment were identified as areas where weaknesses existed. The existence of these weaknesses is to be compensated for by senior management monitoring, which exists. The officers will continue to monitor very closely all financial activities of the Company and increase the level of supervision in key areas. It is important to note that this issue would also require the Company to hire additional staff in order to provide greater segregation of duties. Since the increased costs of such hiring could threaten the Company's financial viability, management has chosen to disclose the potential risk in its filings and proceed with increased staffing only when the budgets and work load will enable the action. The Company has attempted to mitigate these weaknesses, through a combination of extensive and detailed review by the CFO of the financial reports, the integrity and reputation of senior accounting personnel, and candid discussion of those risks with the audit committee.

Approval

The Board of Directors of the Company has approved the disclosure contained in this Interim Management Discussion and Analysis.

A Cautionary Tale

This document contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Corporation, its subsidiaries and its projects, the future supply, demand, inventory, production and price of minerals, the estimation of reserves and resources, the realization of reserve estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of pending litigation and regulatory matters.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations

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(including negative variations) of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of resources; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the resource industry; political instability, insurrection or war; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Respectfully submitted

on behalf of the Board of Directors

“Delbert W. Steiner”

Delbert W. Steiner
President & CEO