



**MANAGEMENT DISCUSSION AND ANALYSIS**

**30 June 2009**

**PREMIUM EXPLORATION INC.**  
**Report to Shareholders and Management Discussion and Analysis**  
**of the Financial Position and Results of Operations**  
**For the Quarter Ended 30 June 2009**

**26 August 2009**

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**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 30 June 2009. 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 30 June 2009 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](http://www.sedar.com). A copy of this MD&A will be provided to any applicant upon request.

**FORWARD-LOOKING STATEMENTS**

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](http://www.premiumexploration.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com)

**GENERAL**

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

Premium’s Chrome Mountain Property, located in Montana within the Stillwater Complex, is a 970 hectare, PGM and gold target. The property is located approximately 1.5 km from the East Boulder Mine’s underground drift within the ultramafic layered intrusion of the Stillwater Complex. Exploration programs from 2006 through 2008 included the drilling of 19 holes and over 2 km of soil geochemistry which identified an extensive zone of platinum, palladium and rhodium mineralization. Premium’s geologists have concluded that the broad and laterally extensive PGM soil anomalies were formed by the same type of processes that formed the Platreef disseminated PGM-Cu-Ni deposits in South Africa. An exploration program is being designed to follow-up on the discovery of the Platreef exploration model, and will take place in Q4 of 2009.

Premium’s Idaho Gold Properties (Buffalo Gulch and Friday-Petsite) reside along a 28 Km strike known as the Orogrande Shear Zone. The Shear Zone is host to four established gold mineralized zones with open-pit heap leach potential. The mineralized zones are being interpreted as the result of a high-grade conduit and feeder model. The Company began a Phase I Drill Program on the Friday-Petsite property in June 2009 which was completed in July 2009.

The San Pedro Analco property is a past producing silver mine, located in Jalisco, Mexico. Premium plans to continue exploration on this property in Q4 of 2009.

The Chrome Mountain and Idaho Gold Properties (Buffalo Gulch and Friday/Petsite) are the primary exploration properties held by the Company – see *Mineral Exploration*.

## **SIGNIFICANT EVENTS AND TRANSACTIONS**

During the second quarter of 2009, and through the date of this report, the Company conducted the following significant events or transactions:

- 8 April 2009 –Wilf Struck, P.Eng., accepted the position of Chief Executive Officer. Mr. Struck is a geological engineer with 25 years experience in mining operations. He has in-depth knowledge of the Company's Chrome Mountain project in Montana and the Buffalo Gulch and Friday-Petsite properties in Idaho and has expertise in gold and platinum group metal exploration in Canada and the USA. Premium's Board approved an issuance of 600,000 stock options to Mr. Struck under the Company's Stock Option Plan. The options are exercisable for a period of 5 years at \$0.15.
- 15 April 2009 – The Company amended the Warrant terms of its private placement announced on 25 March 2009. The ½ Warrant was increased to a full Warrant and the price of each Warrant was amended to \$0.20 for the first year and \$0.50 for the second year. The offering intended to raise up to \$500,000 through a non-brokered private placement of 5,000,000 Units (the "Unit") at \$0.10 per Unit. Proceeds from the placement will be used for production permitting on the Buffalo Gulch gold project, exploration drilling on the high grade gold zone at the Friday-Petsite property and general administration.
- 13 May 2009 – Premium signed a contract for road development to access the drill sites for the Phase I Drill Program on the Company's Friday-Petsite property in Idaho. Mike Ostenson, an experienced gold and PGM exploration geologist joined Premium's geologic team.
- 27 May 2009 – The Company announced the closing of the non-brokered, private placement which raised \$673,900 through the offering of 6,739,000 units (the "Units") at a price of \$0.10 per Unit.
- 10 June 2009 –For the last two quarters of 2009, the Company will focus on the exploration and development of the Orogrande Shear Zone in Idaho starting with the Friday-Petsite project. In addition, Premium plans to advance the PGM Chrome Mountain project on the Stillwater Complex in Montana and the past producing silver project, San Pedro Analco in Jalisco, Mexico.
- 18 June 2009 – Premium announced that drilling on the Friday-Petsite project in Idaho commenced ahead of schedule and confirmed the true dip of the Orogrande Shear Zone at the Friday-Petsite project in Idaho. A total of 161.5 metres (532 ft) of the 800-metre (2624 ft) initial Phase-One drill program had been completed at this date.
- 20 June 2009 - The Company clarified its position with SNS Silver Corp. ("SNS"). On 2 March 2009, Premium entered into two Letters of Intent (LOI) with SNS with the intent of entering a definitive agreement within 90 days. The LOI's allowed SNS to earn in to a maximum of 50% by advancing financing, and paying in cash and stock, certain exploration and development costs to develop Premium's Friday/Petsite and Buffalo Gulch properties. SNS initially paid PEM CDN \$125,000, in advance, on each LOI. In the event a definitive agreement is not reached, the Company is obligated to return \$200,000 to SNS.

The time required for completion of the Letters of Intent ("LOI") has lapsed and the parties have not signed a definitive agreement. SNS's ability to participate in negotiations was impeded due to the situation in Silver Valley, Idaho. The Companies have agreed to explore a strategic relationship to rekindle mining's importance to the economy of Idaho.

## **EVENTS SUBSEQUENT TO 30 JUNE 2009**

- 9 July 2009 – Premium completed the Phase-One drill program on its Friday-Petsite property in Idaho, USA. The program was designed to test the continuity of the Orogrande Shear Zone (OSZ) along strike to the north and south of the existing resource and to provide minor in-fill drilling for information which will be used to re-assess the NI 43-101 compliant resource. The Company anticipates that data from this program may upgrade a significant portion of the resource. Seven HQ core holes were drilled to a maximum depth of 153 metres and total footage drilled was 853.4 metres.
- 6 August 2009 – Premium released assay results from the first three holes of the drill program on the Friday-Petsite property in Idaho, USA. The assays confirm the continuity of the high-grade gold mineralization associated with the Orogrande Shear Zone and extends the strike length by 50%, from 350 meters to 525 meters, in this Phase-One drill program.

## **MINERAL EXPLORATION**

### ***Chrome Mountain, Montana, USA***

The Chrome Mountain Project is a platinum, palladium, rhodium and gold target consisting of 970 hectares and is located approximately 1,500m from the East Boulder Mine within the Stillwater Complex.

Premium is reviewing exploration results to date on this property. Exploration programs from 2006 to 2008 included the drilling of 19 holes and over 2 km of soil geochemistry which identified an extensive zone of platinum, palladium and rhodium mineralization. Exploration and drilling in 2007 and 2008 focused on a large PGM soil anomaly measuring 2,500 metres x 800 metres, which hosts up to 1.2 g/t Pt plus Pd Rd over 116.7 metres at surface and encountered mineralization similar to a combination of Platreef and UG2 styles of mineralization.

Premium believes that the “A” and “B” chromitites have not yet been intersected by drilling to date. Although the mineralized intercepts contained chromites, they appear to be above the zone that hosts the “A” and “B” chromitite horizons. Dr. Reid Keys, Ph.D., of Monash University concluded that the broad and laterally extensive PGM soil anomalies were formed by the same type of processes that formed the giant Platreef disseminated PGM-Cu-Ni deposits in South Africa. An exploration program scheduled for Q4 of 2009 is currently being designed to follow up on the discovery of the new Platreef exploration model.

Platreef is one of the most profitable styles of mineralization as it is located near surface, which lends itself to simple surface mining procedures and typically has large tonnages. Consequently, the mining methods benefit from the economics of scale.

The Pine Claim fault on the property is a conduit for gold mineralization. The fault remobilized PGM's associated with the “A” and “B” chromitite horizons. Premium will conduct a surface mapping and sampling to further define the limits of the gold bearing system of the Pine Claim Shear Zone.

### ***Orogrande Shear Zone – Idaho, USA***

The Orogrande Shear Zone is a gold mineralization belt 28 km long in strike length and hosts many of the 219 mapped prospects which constitute the “Elk City Gold Belt”. The Gold Belt includes at least 13 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, which is comprised of three sections: the North Orogrande Shear Zone; the South Orogrande Shear Zone; and the Central Orogrande Shear Zone. The Company conducted an extensive review of all available exploration data and believes that the Orogrande Shear Zone is the mineralizing conduit for the entire 28 km strike length of the geologic structure. Phase I of a \$4,000,000 drill program was started in June 2009 and is designed to test each of the three sections. The drill program is expected to extend over a two year period.

### ***North Orogrande Shear Zone – Buffalo Gulch, Idaho, USA***

The Buffalo Gulch Property is comprised of 107 unpatented quartz lode mining claims and is under a Letter of Intent to Joint Venture with the Clearwater Mining Corporation to explore and develop the property which is being permitted for production. A Memorandum of Understanding (MOU) is in process between the BLM and Elk City Mining, LLC (ECM).

The permitting process is ongoing and an exploration program of ground geophysics, soil sampling along mineralized horizons and mapping is being developed. A preliminary drill program of approximately 5,000 feet is being developed for Buffalo Gulch. The program is designed to test the high-grade mineralization below the currently defined Buffalo Gulch deposit as well as along strike. The program is expected to start in Q4 of 2009.

### ***Central Orogrande Shear Zone, Idaho USA***

In June 2008, the Company staked 110 quartz lode mining claims which cover the heart of the Central Orogrande Shear Zone. This portion of the Shear Zone is located between the Company’s Buffalo Gulch Joint Venture property on the northern extension of the shear zone and the Friday/Petsite NI-43-101 property on the southern extension of the shear zone.

The preliminary drill plan for the Central Orogrande Shear Zone will include 8 holes totalling 1,700 meters. Drilling on the Central Orogrande Shear Zone is designed to intersect the Orogrande Shear Zone in the area as delineated by past soil geochemistry surveys over a 6 km strike length. The drill program is subject to the permitting applications which are being processed.

### ***South Orogrande Shear Zone – Friday-Petsite, Idaho, USA***

The Friday-Petsite property is under a Letter of Intent to acquire the South Orogrande Shear Zone from Clearwater Mining Corporation. The property is located in the vicinity of Elk City, Idaho and is comprised of two properties Friday-Petsite and the Dixie Property. The Friday-Petsite property consists of 120 claims and includes the two past-producing mines locally known as the Orogrande Mine and the Frisco Pit.

The property is NI 43-101 compliant with an Inferred Resource of 531,890 troy ounces Au, contained in 15.17 million tonnes averaging 1.1 g/t gold (0.032 oz/ton) at a cut-off of 0.514 gram per metric tonne (0.017 oz/ton). The property is open to the north and south along strike and at depth. Premium’s review of the historical exploration data of this disseminated gold deposit has identified three additional targets. Some of the targets are associated with geochemical / geophysical gold anomalies in the vicinity of this deposit have not been drill tested.

In June 2009, Premium began the first phase of drilling. A total of 853.4 metres was drilled consisting of 7 HQ core holes. The program was designed to intersect the Orogrande Shear Zone and delineate mineralization down dip and along strike from gold mineralization encountered in past drill programs. The program has confirmed the continuity of the high-grade gold mineralization associated with the Orogrande Shear Zone and extended the strike length of the zone by 50%. Premium believes that the program has significantly increased ounces and proven a new model advancing the soil geochemistry and potential drill target 4,000 ft to the south.

At the time of this writing, assay results had been received for the first three drill-holes: PFR2009-01, PFR2009-02, and PFR2009-03. Results have also been received for PFR2009-5, however two intervals are over-limit (greater than 10 g/t) by "Fire Geochem" ACME Analytical Laboratories method 3B, and final results will be reported once the metallic screen/sieve analysis for coarse gold has been completed.

### ***San Pedro Analco, Jalisco, Mexico***

The San Pedro Analco property consists of 1,136 hectares and is located in Jalisco, Mexico, approximately 70 Km northwest of Guadalajara. Premium has an option to earn 100% of the property by making cash payments and exploration expenditures over three years. San Pedro is a past producer with production from five underground mines.

The Phase II Exploration Program involves the review and compilation of an independent engineering report, historical data, and previous drill and sample data. The compiled information will be field tested in order to confirm the reserves that have already been calculated in the area. The exploration program will lay the foundation for the design and implementation of the drill program on the property. The drill program will test several targeted vein systems.

## **Results of Operations**

As the reader will learn during this analysis, the mantra of the Company during the 2009 fiscal year has been cost control. The Company has worked diligently to reduce expenditures due to diminished investment activity in the exploration mining sector and the troubles in the greater global economy. The Company believes that this environment has started to change, as evidenced by the successful completion of a private placement in June.

That placement has been used to successfully complete the June drilling program and we are now pending the final results of that effort. Our belief is that the results already announced, along with those which are anticipated, will facilitate a larger funding as we complete the third quarter. That funding will allow the systemized drilling programs and explorations activities to go forward.

The loss for the six month period ended 30 June 2009 was 646,011, which compares to a loss of \$1,786,754 in same quarter of 2008. For the three months ended 30 June 2009 the loss was \$277,275 versus \$823,035 for the same period in the prior year. The fluctuation in results is due to a number of factors, key among them being:

	<b>3 months 2009</b>	3 months 2008	<b>6 months 2009</b>	6 month 2008
<b>Resource property expense</b>	\$ <b>254,000</b>	\$ 499,000	\$ <b>305,000</b>	\$ 919,000
Variance increase (decrease)	<b>(245,000)</b>		<b>(614,000)</b>	

The vast majority of the exploration costs this year relate to the drilling program undertaken in Idaho and the drop from the prior periods result from a narrowly defined focus and aggressive cost monitoring. These hard learned lessons bode well for the future of the Company.

	<b>3 months 2009</b>	3 months 2008	<b>6 months 2009</b>	6 month 2008
<b>Stock-based compensation</b>	\$ <b>54,000</b>	\$ 158,000	\$ <b>170,000</b>	\$ 295,000
Variance increase (decrease)	<b>(104,000)</b>		<b>(125,000)</b>	

This is a non-cash expense related to the granting of stock awards to officers, directors and consultants and fluctuates based on the whims of the Black-Scholes calculations.

	<b>3 months 2009</b>	3 months 2008	<b>6 months 2009</b>	6 month 2008
<b>Management fees</b>	\$ <b>47,000</b>	\$ 97,000	\$ <b>86,000</b>	\$ 153,000
Variance increase (decrease)	<b>(50,000)</b>		<b>(67,000)</b>	

The decrease in management fees relates to the cost control efforts of the Company. Our expectation is that these costs will start to return to normal levels as we have recently acquired a new CEO and expanded the officer base by one party.

	<b>3 months 2009</b>	3 months 2008	<b>6 months 2009</b>	6 month 2008
<b>Shareholder relations</b>	\$ <b>45,000</b>	\$ 97,000	\$ <b>66,000</b>	\$ 249,000
Variance increase (decrease)	<b>(52,000)</b>		<b>(183,000)</b>	

As discussed the mantra is cost control. Management has focused on putting the money into the ground. Our expectation is that these levels will rise as the anticipated results provide increased interest in the properties and a need to convey results and activities.

	<b>3 months 2009</b>	3 months 2008	<b>6 months 2009</b>	6 month 2008
<b>Professional fees</b>	\$ <b>31,000</b>	\$ 58,000	\$ <b>75,000</b>	\$ 118,000
Variance increase (decrease)	<b>(27,000)</b>		<b>(43,000)</b>	

The prior period results included unexpected legal and audit costs which have been controlled in the current year.

	<b>3 months 2009</b>	3 months 2008	<b>6 months 2009</b>	6 month 2008
<b>Travel</b>	\$ <b>27,000</b>	\$ 36,000	\$ <b>47,000</b>	\$ 94,000
Variance increase (decrease)	<b>(9,000)</b>		<b>(47,000)</b>	

The reduction is entirely due to cost controls relating to management's focus on same.

## **SUMMARY OF QUARTERLY RESULTS**

### **Financial Data for the Last Eight Quarters**

Three Months Ended	Jun-09	Mar-09	Dec-08	Sept-08	June-08	Mar-08	Dec-07	Sep-07
Total Revenues	\$Nil	\$NI	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Loss from continuing operations	\$646,001	338,984	\$844,588	\$569,655	\$1,364,742	963,719	1,040,253	\$866,045
Loss for the period	\$646,011	338,984	\$844,588	\$569,655	\$915,463	1,412,998	1,040,253	\$866,045
Loss per share	(0.01)	\$(0.01)	\$(0.03)	\$(0.02)	\$(0.03)	\$(0.4)	(0.05)	(0.03)

## **OUTSTANDING SHARES**

As at 30 June 2009, the Company had common shares issued and outstanding versus 35,992,053 common shares issued and outstanding at 30 June 2008. The Company has seen the following capital transactions during the six months ended 30 June 2009:

On 29 May 2009, the Company issued 6,739,000 units on a private placement at Cdn\$0.10 per unit for gross proceeds of Cdn\$673,900. Each unit consisted of one common share and one common share purchase warrant. Each warrant allows the holder to acquire one additional common share for a two year period at an exercise price of Cdn\$0.20 in the first year and Cdn\$0.50 in the second year. The Company paid agent's commissions of Cdn\$10,000 and other costs relating to the placement of CDN\$27,475.

Since 30 June 2009 the Company has seen 100,000 options exercised and 20,000 warrants exercised bringing the number of shares issued and outstanding as at today to 36,112,053.

## **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 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 30 June 2009 the Company held currency totalling Cdn\$266,000; US\$133,000; and Pesos\$4,000. Accounts payable are settled in a timely manner.

Fair Value – As at 30 June 2009 and 2008 the carrying values of receivables, accounts payable and accrued liabilities and notes payable approximate their fair values due to their short term to maturity.

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 current year.

## **CAPITAL RESOURCES AND COMMITMENTS**

The Company has an agreement, with Delbert W. Steiner, President and Director, which calls for monthly payments of \$7,000 and a term of five years to 1 March 2011. This contract may be cancelled upon the Company providing six months advance notice.

The Company has a property payment for the San Pedro Analco property due on 30 September 2009 for \$280,000.

It will be necessary for the Company to arrange for additional financing to meet its ongoing exploration and overhead requirements.

Management believes it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. Although the Company successfully completed multiple financings, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company had no off-balance sheet arrangements as at 30 June 2009 and as at the date hereof.

## **International Financial Reporting Standards**

On 13 February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit oriented enterprises effective 1 January 2011. The Company is presently considering the effect these standards will have on its accounting statements.

## **RELATED PARTY TRANSACTIONS**

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

- a) The Company paid or accrued management fees of US\$42,000 (2007 - \$30,000) to a director and officer of the Company.
- b) The Company paid or accrued management fees of Cnd\$25,000 (2007 - \$Nil) to an officer of the Company.
- c) The Company paid or accrued management fees of US\$30,000 (2007 - \$Nil) to an officer of the Company.
- d) The Company incurred \$8,600 (2007 - \$6,000) of interest on notes payable to directors

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

## **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, due to related parties and notes payable. The Company maintains most of its cash in Canadian dollars. However, amounts are converted into U.S. dollars and Mexican pesos and are therefore subject to changes in fair value due to fluctuations in exchange rates. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## **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 30 June 2009 Consolidated Financial Statements provide a breakdown of the general and administrative expenses for the year 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 very 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.

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.

## **APPROVAL**

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

Respectfully submitted  
On Behalf of the Board of Directors

*"Delbert W. Steiner"*

Delbert W. Steiner, *President*