

PREMIUM EXPLORATION INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 and 2004

AUDITORS' REPORT

To the Shareholders of
Premium Exploration Inc.

We have audited the consolidated balance sheets of Premium Exploration Inc. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the year ended December 31, 2005 and for the period from incorporation on February 27, 2004 to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and for the period from incorporation on February 27, 2004 to December 31, 2004 in accordance with Canadian generally accepted accounting principles.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

April 25, 2006

A Member of SC INTERNATIONAL

Consolidated Balance Sheets

As at December 31

U.S. Funds

ASSETS	2005	2004
Current		
Cash	\$ 12,084	\$ 93,368
Receivables	9,520	-
GST receivable	8,305	-
Prepaid expenses	538	1,703
	30,447	95,071
Deferred Financing Costs	167,014	-
Resource Properties – Schedule (Note 3)	595,113	442,132
Property, Plant and Equipment (Note 4)	3,728	-
	\$ 796,302	\$ 537,203
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 249,869	\$ 63,821
Due to related parties (Note 8)	100,825	35,234
Notes payable (Note 5)	59,066	21,702
	409,760	120,757
Notes payable (Note 5)	28,454	30,298
Continued Operations (Note 1)		
Subsequent Events (Note 11)		
SHAREHOLDERS' EQUITY		
Share Capital (Note 6)	664,799	497,060
Deficit - Statement 2	(306,711)	(110,912)
	358,088	386,148
	\$ 796,302	\$ 537,203

ON BEHALF OF THE BOARD:

"Delbert W. Steiner", Director"Kenneth A. Scott", Director

Consolidated Statements of Loss and Deficit

U.S. Funds

	Year Ended December 31 2005	Period from Incorporation on February 27, 2004 to December 31, 2004
Expenses		
General exploration	\$ 7,017	\$ 43,247
Wages, fees and benefits	59,928	36,530
Professional fees	18,688	21,730
Travel	31,431	6,949
Office rent	27,102	3,911
Office and general	8,466	1,555
Bank charges	2,004	938
Interest expense	3,898	-
Shareholder relations	4,094	800
Amortization	932	-
Write-off of resource property costs	23,750	-
Foreign exchange (gain) loss	8,489	(4,748)
Net Loss for the Period	(195,799)	(110,912)
Deficit - Beginning of period	(110,912)	-
Deficit - End of Period	\$ (306,711)	\$ (110,912)
Loss per Share - Basic and Diluted	\$ (0.02)	\$ (0.03)
Weighted average number of common shares outstanding	11,514,994	3,723,214

Consolidated Statements of Cash Flows

U.S. Funds

	Year Ended December 31 2005	Period from Incorporation on February 27, 2004 to December 31, 2004
Operating Activities		
Loss for the period	\$ (195,799)	\$ (110,912)
Items not affecting cash		
Amortization	932	-
Write-off of resource property costs	23,750	-
Changes in non-cash working capital items		
Receivables	(9,520)	-
GST receivable	(8,305)	-
Prepaid expenses	1,165	(1,703)
Accounts payable and accrued liabilities	83,758	16,207
Due to related parties	44,826	34,134
	<u>(59,193)</u>	<u>(62,274)</u>
Investing Activities		
Property, plant and equipment acquired	(4,660)	-
Resource property expenditures	(152,935)	(201,418)
	<u>(157,595)</u>	<u>(201,418)</u>
Financing Activities		
Shares issued and allotted for cash	167,739	325,060
Deferred financing costs	(67,755)	-
Proceeds from notes payable	37,222	32,000
Repayment of notes payable	(1,702)	-
	<u>135,504</u>	<u>357,060</u>
Net Increase (Decrease) in Cash	(81,284)	93,368
Cash position - Beginning of period	93,368	-
Cash Position - End of Period	\$ 12,084	\$ 93,368
Supplemental Schedule of Non-Cash Investing and Financing Transactions		
Deferred financing costs funded by accounts payable	\$ 86,061	\$ -
Deferred financing costs funded by due to related parties	13,198	-
Resource property expenditures funded by accounts payable	63,843	47,614
Resource property expenditures funded by due to related parties	8,667	1,100
Note payable issued for mineral property acquisition	-	20,000
Share capital issued for mineral property acquisition	-	172,000
Interest received	-	-
Interest paid	698	-

Consolidated Schedule of Resource Property Costs

U.S. Funds

	Acquisition		Deferred Exploration		Year Ended December 31 2005	Period from Incorporation on February 27, 2004 to December 31, 2004
Platinum Fox Property, Montana, U.S.A.						
Acquisition	\$	-	\$	-	\$	89,000
Assaying	-	-	8,647	-	8,647	65
Drilling	-	-	4,063	-	4,063	85,464
Claim fees	-	-	7,746	-	7,746	7,010
Geological	-	-	8,247	-	8,247	5,396
Reports	-	-	9,944	-	9,944	-
Environmental	-	-	-	-	-	2,433
Roads	-	-	65	-	65	1,565
General	-	-	731	-	731	2,959
	-	-	39,443	-	39,443	193,892
East-West Property, Montana, U.S.A.						
Acquisition	-	-	-	-	-	100,000
Claim fees	-	-	5,593	-	5,593	5,460
Transportation	-	-	5,998	-	5,998	-
Reports	-	-	4,950	-	4,950	-
General	-	-	(1,248)	-	(1,248)	1,824
	-	-	15,293	-	15,293	107,284
SD Property, Montana, U.S.A.						
Acquisition	-	-	-	-	-	3,000
Claim fees	-	-	820	-	820	750
Reports	-	-	5,000	-	5,000	-
General	-	-	-	-	-	125
	-	-	5,820	-	5,820	3,875
Cucurpe Project, Sonora, Mexico						
Acquisition	63,538	-	-	-	63,538	55,500
Staking, filing and concession fees	-	-	7,482	-	7,482	30,283
General	-	-	631	-	631	25,281
Geological	-	-	15,794	-	15,794	19,555
Surface access	-	-	18,000	-	18,000	-
Field management	-	-	8,000	-	8,000	-
Sampling	-	-	-	-	-	2,356
Assaying	-	-	2,730	-	2,730	1,645
Field transportation	-	-	-	-	-	1,480
Survey	-	-	-	-	-	981
	63,538	-	52,637	-	116,175	137,081
Total Costs for the Period	63,538	-	113,193	-	176,731	442,132
Write-off of resource property costs	(22,500)	-	(1,250)	-	(23,750)	-
Balance - Beginning of period	244,500	-	197,632	-	442,132	-
Balance - End of Period	\$ 285,538	\$	309,575	\$	595,113	\$ 442,132

- See Accompanying Notes -

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

U.S. Funds

1. Nature of Business and Continued Operations

The Company was incorporated in the Province of British Columbia, Canada on February 27, 2004. The Company is in the exploration stage and is in the process of exploring several mineral properties in the United States and Mexico. The Company has not yet determined whether these properties contain economic reserves. The Company has completed an Initial Public Offering ("IPO") to list on the TSX Venture Exchange ("TSX-V") (Note 11a).

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 amounts shown for resource properties 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. Also, the Company may have to raise additional funds for future corporate and administrative expenses and to undertake further exploration and development of its mineral properties. There can be no assurance that the Company will be able to raise sufficient funds in the future.

These financial statements have been prepared on a going concern basis, which contemplates that the Company will 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. As at December 31, 2005, the Company has a working capital deficiency of \$379,313 (2004 - \$25,686), an accumulated deficit of \$306,711 (2004 - \$110,912), has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its mineral interests. The Company's ability to continue as a going concern is dependent on its ability to raise equity financing and attain profitable operations (Note 11a).

These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities and the reported revenues and expenses should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which require management to make estimates and assumptions that affect the reported amounts and other disclosures in these financial statements. Actual results may differ from those estimates.

The Company's significant accounting policies are as follows:

a) Basis of Presentation

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

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

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

U.S. Funds

2. Significant Accounting Policies - *Continued*

b) Resource Properties

Acquisition costs of mineral properties and direct exploration and development expenditures thereon are capitalized on an individual prospect basis. Costs relating to properties abandoned are written-off when such decision is made. When production is attained, these costs are amortized using the unit of production method based upon estimated recoverable reserves.

General exploration costs are expensed in the period incurred where no claim is ultimately staked in the area or no property agreement is completed to cover the area explored.

The Company reviews the carrying value of its mineral properties on a regular basis. Provision is made, where appropriate, for declines in value, which are considered to be other than temporary in nature.

The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to develop the properties and future profitable production from the properties or proceeds from disposition.

Ownership in mineral interests involves certain inherent risks due to the difficulties of determining the validity of certain mineral claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral interests. The Company has investigated title to its mineral interests and, to the best of its knowledge, ownership of its interests are in good standing.

c) Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is recorded at rates sufficient to write-off the cost of the assets over their estimated useful lives. The methods and annual amortization rates are as follows:

Furniture and fixtures - 20% declining balance

d) Property Option Agreements

From time to time, the Company may acquire or dispose of properties 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 as resource property costs or recoveries when the payments are made or received. The Company does not accrue the estimated costs of maintaining its mineral interests in good standing.

e) Stock-Based Compensation

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

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

U.S. Funds

2. Significant Accounting Policies - *Continued*

f) Loss per Share

Loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the loss per share. The dilutive effect of convertible securities would be reflected in diluted loss per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents would be reflected in diluted loss per share by application of the treasury stock method. As of December 31, 2005 and 2004 there are no outstanding convertible securities, options or warrants.

g) Asset Retirement Obligations

The Company has adopted the recommendations of CICA Handbook Section 3110, *Asset Retirement Obligations*. This new section requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in regulations; the extent of environmental remediation required or completed, the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

h) Share Capital

- i) The proceeds from the exercise of stock options and warrants are recorded as share capital at the exercise price of the related option or warrant.
- ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

i) Foreign Currency Translation

The accounts of the Company's Canadian and Mexican operations have been translated into U.S. dollars as follows:

- Monetary assets and liabilities at year-end rates,
- All other assets and liabilities at historical rates, and
- Revenue and expense and exploration and development items at rates approximating those in effect at the date of the transaction.

Exchange gains and losses arising from these transactions are reflected in income or expense in the period.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

U.S. Funds

2. Significant Accounting Policies - *Continued*

j) **Deferred Financing Costs**

The Company has incurred certain costs related to its IPO, which are presented in these financial statements as deferred financing costs. These costs will be treated as share issuance costs upon completion of the offering (*Note 11a*). If the offering had not completed, the costs would have been written off as financing costs in the period that the offering was abandoned.

k) **Future Income Taxes**

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

l) **Comparative Figures**

Certain of the comparative figures have been reclassified to conform with the presentation of the current year.

3. Resource Properties

a) Details of cumulative expenditures are as follows:

	Acquisition	Exploration	2005
Mineral Properties			
Platinum Fox Property, Montana, U.S.A.	\$ 89,000	\$ 144,335	\$ 233,335
East-West Property, Montana, U.S.A.	100,000	22,577	122,577
SD Property, Montana, U.S.A.	3,000	6,695	9,695
Cucurpe Project, Sonora, Mexico	96,538	132,968	229,506
	<u>\$ 288,538</u>	<u>\$ 306,575</u>	<u>\$ 595,113</u>
	Acquisition	Exploration	2004
Mineral Properties			
Platinum Fox Property, Montana, U.S.A.	\$ 89,000	\$ 104,892	\$ 193,892
East-West Property, Montana, U.S.A.	100,000	7,284	107,284
SD Property, Montana, U.S.A.	3,000	875	3,875
Caliche Hill Property, Sonora, Mexico	55,500	81,581	137,081
	<u>\$ 247,500</u>	<u>\$ 194,632</u>	<u>\$ 442,132</u>

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

U.S. Funds

3. Resource Properties - Continued

b) Platinum Fox Property, Montana, U.S.A.

As provided by an agreement dated November 1, 2004 and an amendment dated October 15, 2005, the Company, through its subsidiary Premium USA, agreed to purchase 54 unpatented mining claims located in Sweetgrass County, Montana. In order to complete the acquisition the Company issued 840,000 shares from treasury, issued a promissory note payable in the amount of \$20,000 (Note 5) to the vendor and must:

On or Before		Complete Exploration Expenditures
December 31, 2004 (completed)	C\$	50,000
December 31, 2005 (completed)		75,000
	C\$	125,000

The 840,000 shares are subject to an escrow agreement (Note 6c) and the related issuance has been recorded at a value of \$69,000.

The Company is required to pay \$125 per claim to the Bureau of Land Management ("BLM") prior to August 31 each year in order to maintain the claims in good standing.

c) East-West Property, Montana, U.S.A.

As provided by an agreement dated December 10, 2004 and subsequent amendments, the Company, through its subsidiary Premium USA, agreed to purchase 77 unpatented quartz lode-mining claims located in Sweetgrass County, Montana. In order to complete the acquisition the Company issued 1,220,000 shares from treasury and must:

On or Before		Complete Exploration Expenditures
December 31, 2005 (i)	C\$	30,000
December 31, 2006		50,000
	C\$	80,000

The 1,220,000 shares are subject to an escrow agreement (Note 6c) and the related issuance has been recorded at a value of \$100,000.

The Company is required to pay \$125 per claim to the BLM prior to August 31 each year in order to maintain the claims in good standing.

- (i) By an amendment dated October 15, 2005, the vendor agreed that the Company has met its 2005 exploration expenditure commitment by expending \$21,637 as of the date of the amendment.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

U.S. Funds

3. Resource Properties - *Continued*

d) SD Property, Montana, U.S.A.

As provided by an agreement dated September 10, 2004 and amended April 18, 2005, the Company, through its subsidiary Premium USA, agreed to purchase 6 unpatented quartz lode-mining claims located in Sweetgrass County, Montana. The Company completed the acquisition by issuing 40,000 shares from treasury and completing the agreed upon exploration expenditure requirements of the amended agreement.

The 40,000 shares are subject to an escrow agreement (*Note 6c*) and the related issuance has been recorded at a value of \$3,000.

The Company is required to pay \$125 per claim to the BLM prior to August 31 each year in order to maintain the claims in good standing.

e) Cucurpe Project, Sonora, Mexico

- i) The Company has staked and directly controls 13 exploration concessions in the Caliche Hill area, known as the Cucurpe Project.
- ii) Pursuant to a letter of intent dated September 20, 2004, the Company agreed to enter into a final and definitive agreement on an option to acquire 19 exploration concessions located in Sonora, Mexico. The Company made a cash payment of \$30,000 as consideration for the agreement. Subsequently, a definitive agreement was reached (*Note 3e(iv)*).
- iii) Pursuant to a letter of intent dated September 20, 2004, the Company agreed to enter into a final and definitive agreement on an option to acquire 3 exploration concessions located in Sonora, Mexico. Subsequently, a definitive agreement was reached on 6 exploration concessions (*Note 3e(vi)*).
- iv) As provided by an option agreement dated December 9, 2004 and a subsequent amendment, the Company, through its subsidiary Premium USA, had the option to acquire 19 exploration concessions located in Sonora, Mexico. On June 17, 2005, the option agreement dated December 9, 2004 was terminated and replaced with a new Exploration Contract between the optionor and the Company's subsidiary, CMZ. In order to maintain its option and earn its 100% interest in the concessions, the Company must:

On or Before	Cash Payments	Complete Exploration Expenditures
Lump sum payment on or before September 20, 2005 (Paid)	\$ 15,000	\$ -
By May 20, 2006	-	200,000
Lump sum payment on or before January 20, 2007	75,000	-
By May 20, 2007	-	400,000
Lump sum payment on or before January 20, 2008	150,000	-
By May 20, 2008	-	900,000
By May 20, 2009	3,583,000	1,500,000
	<u>\$ 3,823,000</u>	<u>\$ 3,000,000</u>

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

U.S. Funds

3. Resource Properties - *Continued*

e) **Cucurpe Project, Sonora, Mexico** – *Continued*

During the term of the agreement, the Company is required to pay all fees and duties required to maintain the claims in good standing. Upon completion of the earn-in term, should an economic gold reserve of 3,000,000 ounces or more be defined, the optionor shall receive an additional payment of \$2,000,000.

v) On June 21, 2005, the terms of the June 17, 2005 Exploration Contract (*Note 3e(iv)*) and the Service Agreement dated June 17, 2005 were confirmed by way of a Confirmatory Agreement. The parties further agreed that all payments previously made under the option agreement dated December 9, 2004 had been credited to the payments required pursuant to the Service Agreement.

vi) As provided by an option agreement dated December 8, 2004, the Company had the option to acquire 6 exploration concessions located in Sonora, Mexico. The Company paid \$22,500 on signing the option agreement and paid monthly cash payments of \$250 per month through May 2005. In May 2005, the Company notified the optionor of its decision to drop the property and related costs of \$23,750 were written off in the year ended December 31, 2005.

4. Property, Plant and Equipment

Details are as follows:

	Cost	Accumulated Amortization	Net Book Value 2005	Net Book Value 2004
Furniture and fixtures	\$ 4,660	\$ 932	\$ 3,728	\$ -

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

U.S. Funds

5. Notes Payable

Details are as follows:

	2005	2004
Platinum Fox, LLC, promissory note payable, unsecured, non-interest bearing, due in full five days after the date the proceeds of the IPO are received <i>(Note 11a) (i)</i>	\$ 20,000	\$ 20,000
Delbert Steiner, a director, promissory note payable, unsecured, bears interest at 8% per annum and repayable at \$350 per month blended interest and principal commencing January 1, 2005	30,298	32,000
Delbert Steiner, a director, promissory note payable, unsecured, bears interest at 8% per annum and repayable at \$200 per month blended interest and principal commencing January 2, 2006	10,000	-
Ida-Mont Inc., promissory note payable, unsecured, repayable on the date the proceeds of the IPO are received <i>(Note 11a)</i> . With interest and a finder fee totaling \$2,000 due on repayment. <i>(i)</i>	10,000	-
Kenneth A. Scott, Inc., a company controlled by a director, promissory note payable, unsecured, repayable on the date the proceeds of the IPO are received <i>(Note 11a)</i> . With interest totaling \$3,444 due on repayment. <i>(i)</i>	17,222	
	87,520	52,000
Current portion	59,066	21,702
	\$ 28,454	\$ 30,298

(i) The loans were subsequently repaid from the proceeds of the IPO *(Note 11a)*.

6. Share Capital

- a) Authorized: Unlimited common shares without par value.
- b) Issued or allotted and fully paid:

	Number of Shares Allotted	Number of Shares Issued	Total Number of Shares	Amount
Balance – February 27, 2004	-	-	-	\$ -
Issued for cash <i>(Note 6c)</i>	-	1	1	1
Issued for cash pursuant to principal escrow agreement <i>(Note 6c)</i>	-	5,000,000	5,000,000	384
Allotted for cash pursuant to C\$0.10 seed capital agreements	4,225,000	-	4,225,000	324,675
Issued for mineral property agreements <i>(Note 6c)</i>	-	2,100,000	2,100,000	172,000
Balance – December 31, 2004	4,225,000	7,100,001	11,325,001	\$ 497,060

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

U.S. Funds

6. Share Capital - Continued

b) Issued or allotted and fully paid - *Continued*:

	Number of Shares Allotted	Number of Shares Issued	Total Number of Shares	Amount
Balance – December 31, 2004	4,225,000	7,100,001	11,325,001	\$ 497,060
Issuance of allotted shares	(4,225,000)	4,225,000	-	-
Issued for cash pursuant to C\$0.10 seed capital agreements	-	644,360	644,360	52,609
Issued for cash pursuant to C\$0.15 seed capital agreements		944,942	944,942	115,130
Balance – December 31, 2005	-	12,914,303	12,914,303	\$ 664,799

c) There are 7,280,001 shares, which are subject to an escrow agreement dated December 31, 2004 and an amendment dated November 1, 2005. Included in this total are 180,000 of the seed shares issued at C\$0.10 per share. Under the terms of the amended escrow agreement 728,001 shares were released from escrow on the date the shares of the Company were listed on the TSX-V (*Note 11a*) and 1,092,000 will be released at the completion of each six-month period after the initial listing date.

d) 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. There were no options granted under the plan until the completion of the IPO (*Note 11*).

7. Income Taxes

a) Future income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future tax assets are as follows:

	2005	2004
Non-capital loss carry-forwards – Canada – 35.6%	\$ 21,600	\$ 5,100
Non-capital loss carry-forwards – U.S. – 34.0%	47,000	15,800
Non-capital loss carry-forwards – Mexico – 30.0%	30,000	17,600
	98,600	38,500
Valuation allowance	(98,600)	(38,500)
	\$ -	\$ -

b) The Company has tax loss carry-forwards of approximately C\$72,000 (2004 - C\$14,000) in Canada, of which C\$14,000 expire in 2014 and C\$58,000 expire in 2015. The future potential tax savings associated with the loss carry-forwards has not been recognized in these financial statements.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

U.S. Funds

7. Income Taxes - *Continued*

- c) The Company has tax loss carry-forwards of approximately \$138,000 (2004 - \$46,000) in the United States, of which \$46,000 expire in 2024 and \$92,000 expire in 2025. In addition, the Company has incurred approximately \$194,000 (2004 - \$133,000) of exploration and development expenses in the United States, which have not been deducted for income tax purposes. The future potential tax savings associated with these items have not been recognized in these financial statements.
 - d) The Company has tax loss carry-forwards of approximately \$100,000 (2004 - \$50,000) in Mexico, of which \$50,000 expire in 2014 and \$50,000 expire in 2015. In addition, the Company has incurred approximately \$230,000 (2004 - \$137,000) of exploration and development expenses in Mexico, which have not been deducted for income tax purposes. The future potential tax savings associated with these items have not been recognized in these financial statements.
 - e) There are no significant reconciling items between the Company's net loss as reported on the statements of loss and deficit and its net loss for tax purposes.
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8. Related Party Transactions

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

- a) The Company incurred management fees of \$36,000 (2004 - \$30,000) charged by a director. The balance of these fees is included in due to related parties.
- b) The balance of \$100,825 (2004 - \$35,234) due to related parties, is owing to directors and is unsecured and non-interest bearing.
- c) The Company incurred \$13,198 (2004 - \$Nil) in fees, recorded as deferred finance costs, to a professional partnership in which a director is a partner. The balance of these fees is included in due to related parties.
- d) The Company incurred \$2,498 (2004 - \$NIL) of interest on a note payable to a director (*Note 5*).

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

9. Financial Instruments

The fair value of the Company's cash, receivables, accounts payable, due to related parties and notes payable is estimated to approximate their carrying values. It is managements' opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

Foreign currency risk management

The Company is exposed to currency risk by incurring certain expenditures and carrying certain cash balances in currencies other than the U.S. dollar. The Company does not use derivative instruments to reduce its currency risk.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

U.S. Funds

10. Segmented Information

The Company's business consists of mineral exploration. Geographic information is as follows:

December 31, 2005	Loss	Identifiable Assets
Canada	\$ 54,279	\$ 182,526
United States	91,727	380,097
Mexico	49,793	233,679
Total	\$ 195,799	\$ 796,302

December 31, 2004	Loss	Identifiable Assets
Canada	\$ (14,339)	\$ 53,172
United States	(46,425)	346,807
Mexico	(50,148)	137,224
Total	\$ (110,912)	\$ 537,203

11. Subsequent Events

a) Initial Public Offering

The Company completed an IPO of 5,000,000 units at C\$0.30 per unit for gross proceeds of C\$1,500,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant allows the holder to acquire one additional common share for two years from the date of the IPO at C\$0.40 per share. The Company received gross proceeds of C\$1,335,621 on February 27, 2006 after deducting C\$135,000 cash commission, the \$7,500 balance of the work fee of C\$15,000 and the agent's expenses of the IPO.

The agent received a cash commission of 9% (C\$135,000) of the gross proceeds of the IPO and warrants equivalent to 10% of the number of units sold. Each agent's warrant allows the agent to acquire one additional common share for two years from the date of the IPO at C\$0.30 per share. In addition, the agent received a corporate finance fee totalling 50,000 units. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant allows the holder to acquire one additional common share for two years from the date of the IPO at C\$0.40 per share.

The Company repaid certain notes payable (*Note 5*) and certain shares were released from escrow (*Note 6c*) upon the Company completing the IPO.

Premium Exploration Inc.

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11. Subsequent Events - *Continued*

- b) Subsequent to year-end, a director advanced the Company a loan of C\$20,000 to provide working capital during the IPO process. The loan was repaid from the proceeds of the IPO, together with interest of C\$4,000.
 - c) Subsequent to year-end, the Company reserved for issuance 750,000 options at C\$0.30 per share for a period of five years from the date of the IPO.
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