

**PREMIUM EXPLORATION INC.**  
**Report to Shareholders and**  
**Management Discussion and Analysis**  
**Of the Financial Position and Results of Operations**  
**For the Year Ended December 31, 2005**

**April 27, 2006**

---

**TO OUR SHAREHOLDERS:**

This Management's Discussion and Analysis ("MD&A") supplements, but does not form part of, the audited financial statements of the Company and the notes thereto for the year ended December 31, 2005. 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 audited annual financial statements for the year ended December 31, 2005 and related notes therein, which have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied.

Discussion of the Company, its operations and associated risks is 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.

**GENERAL**

Premium is a mineral exploration company that has unproven mineral property interests in Montana, USA and Sonora Mexico. Our principal business activities have been the exploration of two mineral properties known as the Montana Property and the Cucurpe Property respectively located in the Stillwater Complex, the State of Montana, United States of America and the State of Sonora, Mexico, respectively. The Company's Montana Property consists of 137 mining claims acquired through three separate acquisition agreements that were completed during the third and fourth quarters of 2004. The Company's property located in Mexico consists of 32 mining concessions and was acquired by staking 13 new concessions during the first quarter of 2005, and the completion of an acquisition agreement on July 17, 2005 for the balance of the 19 mining concessions. All property transactions have been conducted on an arm's length basis between the Company and the vendors.

The Montana Property and the Cucurpe Property are the primary exploration properties held by the Company – see *Mineral Exploration*.

**SIGNIFICANT EVENTS AND TRANSACTIONS**

During the year, the Company initiated the process of completing a listing with the TSX Venture Exchange and incurred \$167,014 of related costs during the process to December 31, 2005. These costs will be deducted from the gross proceeds of the Initial Public Offering ("IPO"). The IPO closed in

February 2006 and the Company received gross proceeds of C\$1,500,000 before commissions and the costs of the IPO.

During the first quarter of 2005, the Company's wholly-owned Mexican subsidiary, Compania Minera Zorro de Plata, S.A. de C.V. ("CMZ") acquired the first 13 of the 32 concessions that comprise the Companies Cucurpe Property by staking new concessions. CMZ and holds a 100% interest in the 13 concessions (the "CMZ Concessions") comprising a total of 8,457.26 hectares.

Additionally, on June 17, 2005, the Company's wholly-owned Mexican subsidiary, CMZ entered into an exploration contract and formal promise of entering into and executing a purchase agreement of mining properties with Emilio Acuna Peralta (the "Acuna Option Agreement") pursuant to which CMZ has acquired the option to acquire 19 mineral exploration concessions comprising 3,340.60 hectares in Sonora State, Mexico (the "CMZ Option Concessions"). These 19 concessions are contiguous to the Company's other Cucurpe Property mining concessions, and comprise the balance of the Company's Cucurpe Property. In order to maintain the Acuna Option Agreement in good standing and earn its 100% interest in the CMZ Optioned Concessions, the Company is to make the following cash payments and incur the following exploration expenditures:

	Cash Payments	Complete Exploration Expenditures
Lump sum payment on or before September 20, 2005 (paid)	\$ 15,000	\$ -
Incur exploration expenditures by May 20, 2006	-	200,000
Lump sum payment on or before January 20, 2007	75,000	-
Incur exploration expenditures by May 20, 2007	-	400,000
Lump sum payment on or before January 20, 2008	150,000	-
Incur exploration expenditures by May 20, 2008	-	900,000
Incur exploration expenditures by May 20, 2009	-	1,500,000
Lump Sum payment on or before May 20, 2009	3,583,000	-
Total	\$ 3,823,000	\$ 3,000,000

Under the Acuna Option Agreement, upon completion of the four-year term of the Agreement, should there be a minimum proven gold reserve of 3,000,000 ounces or more on the CMZ Option Concessions, Acuna is to receive an additional payment of \$2,000,000 from the Company.

During the year, the Company also negotiated amendments to its existing Montana property agreements in order to keep all of these agreements in good standing through the duration of the IPO process.

In addition, the Company raised an additional \$52,609 on the issuance of 644,360 common shares from treasury pursuant to seed share agreements at C\$0.10 per share and a further \$115,130 on the issuance of 944,942 common shares from treasury pursuant to seed share agreements at C\$0.15 per share.

## **MINERAL EXPLORATION**

### ***Montana Property***

The Montana property is comprised of 137 unpatented claims covering approximately 2,400 acres located in the Stillwater Igneous Complex, in the State of Montana, United States of America (collectively, the "Montana Property"). The Montana Property consists of three properties known as the Platinum Fox Property, the SD Property and the East-West Property and contiguous to each other and collectively constitutes an early-stage exploration property. The Company acquired the 137 claims through its Subsidiary, Premium Exploration USA, Inc., and holds a 100% interest in the Claims. All 137 claims are in good standing at the present time and are further described in Exhibit 4.4 to this Annual Report. The three individual contiguous properties that comprise the Montana Property were acquired under three different acquisition agreements as follows.

On November 1, 2004, the Company entered into a purchase agreement with Platinum Fox, LLC ("Platinum Fox") (the "Platinum Fox Agreement") pursuant to which Platinum Fox has agreed to sell to the Company a 100% interest in 54 unpatented mining claims in the Stillwater Complex in the State of Montana, USA (the "Platinum Fox Property"). Pursuant to the terms of the Platinum Fox Agreement, the Company has issued 840,000 Common Shares to Platinum Fox and has promised to pay the sum of \$20,000, without interest, on December 1, 2004 (the "Platinum Debt") as evidenced by a promissory note executed by the Company in favour of Platinum Fox. By an amendment dated October 15, 2005, Platinum Fox has agreed to extend the due date of the promissory note until five days from the date of closing of the Offering and interest is accumulated at 8% per annum commencing January 1, 2005. A portion of the proceeds of the Offering was used to pay the Platinum Debt in full. In addition, under the Platinum Fox Agreement, the Company has covenanted to complete a minimum of \$50,000 (completed) of expenditures on the Platinum Fox Property during 2004 and a total of \$75,000 (completed) during 2005.

On September 10, 2004 and an amendment dated April 18, 2005, the Company entered into a purchase agreement with Scott Dannenbring (the "Dannenbring Agreement") pursuant to which Mr. Dannenbring agreed to sell to the Company a 100% undivided interest in 6 unpatented quartz lode mining claims located in the Stillwater Complex in the State of Montana (the "SD Property"). Pursuant to the Dannenbring Agreement, the Company has issued 40,000 Common Shares to Mr. Dannenbring and has covenanted to incur expenditures on the SD Property of C\$12,500 in 2005. The Company has incurred the minimum expenditures in 2005 and has received Mr. Dannenbring's acknowledgement of same.

On December 10, 2004, the Company entered into a purchase agreement with Rod Nicholls (the "Nicholls Agreement") pursuant to which Mr. Nicholls agreed to sell to the Company a 100% interest in 77 unpatented quartz lode mining claims in the Stillwater Complex in the State of Montana (the "East-West Property"). Pursuant to the terms of the Nicholls Agreement, the Company has issued 1,220,000 Common Shares to Mr. Nicholls and has covenanted to incur expenditures on the East-West Property of C\$30,000 during 2004 and a total of C\$50,000 during 2005. The Company did not complete the exploration commitments required during 2004 and subsequently entered into an amendment to purchase agreement dated December 28, 2004 with Salnave Road Ventures, LLC ("Salnave") and Rod Nicholls (the "Amendment Agreement") pursuant to which the Company approved and consented to the assignment of the Nicholls Agreement from Mr. Nicholls to Salnave and has agreed to issue the 1,220,000 Common Shares to Salnave rather than to Mr. Nicholls. In addition, under the Amendment Agreement, the parties agreed to amend the exploration commitments such that the Company is to incur the initial C\$30,000 of exploration expenses during 2005 and C\$50,000 of exploration expenditures during 2006. By a second amendment dated October 15, 2005, Salnave accepted the Company's expenditure of \$21,637 to October 15, 2005 as satisfying the C\$30,000 of exploration expenses required under the agreement during 2005.

All of the claims associated with the Montana Property are unpatented; therefore in addition to the payments to the underlying owners, an annual rental payment to the United States Bureau of Land Management is required to maintain the claims in good standing. The annual payment is \$125 per claim and must be made on or before August 31 of every year. The claims have not been surveyed and are located in an area that does not have surveyed townships and ranges. The most recent claims were staked utilizing a survey grade Trimble Global Positioning Satellite ("GPS") system with differential correction or a Garmin GPS 12, while the earlier claim staking relied on compass, dead reckoning and topographic maps for locations.

The Montana Property is underlain by bedrock of the Stillwater Complex primarily Basal Zone (Norite, gabbro, and bronzitite), followed by the Ultramafic sequence (Harzburgite, bronzitite) and the lower portion of Lower Member of the Banded Zone which consists of alternating bands of norite, gabbro, troctolite and anorthosite. The units generally dip to northeast at 50 and 90 degrees and strike N60W. Shallow thrust faults from the southwest have covered portions of the Complex with older metamorphic rocks. The units centered on Chrome Mountain have been folded and form a gentle syncline plunging shallowly to the north. This folding has been accompanied by faulting leading to complexities in the interpretation of the mapping. The area has also been intruded by small (30 feet to 300 feet diameter in cross-section) pegmatoidal textured olivine cumulates. The lithology displays varying degrees of

displacement associated with transverse faults that developed during the latter stages of crystallization can be mapped. The displacement decreases as one traverses stratigraphically up sequence (to the northeast) due to the inability of the fault to propagate through a semi-crystalline mush. Commonly these faults are intruded by narrow fine-grained mafic dikes that crosscut all units. During uplift and rotation of the complex, reverse slip faults developed semi-parallel to the lithologic contacts and exhibit variable displacement ranging from inches to hundreds of feet.

Based on mapping, sampling, and geochemistry, anomalous mineralization has been detected in several areas. The mineralization is associated with chromitite horizons and contains elevated chromium, native PGM and PGM sulphides. The palladium content is greater than the platinum which is greater than the rhodium. Geochemistry across the contact between the Ultramafic Series and the Banded Zone has demonstrated elevated PGM, which is in close proximity to a prominent geophysical conductor. The Basal Zone is host to nickel and copper mineralization, but has not been examined for PGM mineralization on this property. Chrome Mountain and the area directly south of it, has been subjected to several episodes of faulting and fracturing with evidence of abundant slickensides. There is a prominent north-south trending fault, which appears to be one of the major faults crosscutting and offsetting lithology. There is abundant brecciation and hydrothermal alteration associated with the fault and the hydrothermal event has introduced gold with minor silver into the fault zone. The hydrothermal event has remobilized PGM associated with the chromitites and re-precipitated the PGM in the vicinity of the fault. The chromite rich areas are more favourable hosts due to the brittleness of the chromite and structural preparation of the chromite during the faulting and shearing. The hydrothermal alteration produced secondary minerals as talc, pyrophyllite, fluorite, clinozoisite, hematite, chlorite, green biotite and anthophyllite (Paster, 1984). The gold observed in thin sections by Mr. Paster occurred as native gold in fractures in the chromite (possibly amalgamated with silver) and in the secondary anthophyllite.

The Company initiated a small drill program for due diligence during the 2004 field season to follow up on soil geochemistry results and to check the results obtained during the earlier drilling. Table 3 below lists significant intercepts from the drilling. The drill collar locations were established using a hand held GPS, which was a Garmin GPS 12. Down-hole surveys were conducted on all of the drill holes and the survey results demonstrated that there was very little deviation of the drill holes.

The 2004 drilling was designed to intersect the fault delineated by the earlier drilling. The program was successful in intersecting the fault as well as extending the strike length an additional 300 feet to the north. The fault has been intercepted in drill holes over a strike length of 500 feet and remains open along strike to the north and south as well as down dip.

The gold mineralization is associated with the intense shearing and alteration along the fault, which is a prominent north-south trending fault. This fault appears to be one of the major faults cross-cutting and offsetting the Basal Zone lithology of the Stillwater Complex. There is abundant brecciation and hydrothermal alteration associated with the fault and the hydrothermal event has introduced gold with minor silver into the fault zone. The hydrothermal event has remobilized platinum and palladium (PGM's) associated with the chromitites and re-precipitated the PGM's in the vicinity of the fault. The chromite rich areas are more favourable hosts due to the brittleness of the chromite and structural preparation of the chromite during the faulting and shearing. Intense hydrothermal alteration produced secondary minerals identified by Paster in 1984 as talc, pyrophyllite, fluorite, clinozoisite, hematite, chlorite, green biotite and anthophyllite. Wilfried Struck did not conduct any independent analyses to confirm Paster's findings.

During 2005, the Company conducted some surface mapping on the Montana Property, which extended mineralization towards the southwest and performed reclamation of the drill sites from the 2004 drilling program. The Company also paid the claim fees to the BLM to keep the claims in good standing. Expenditures on the Montana Property, were very limited as a result of the limited cash resources available as the Company worked on completing its IPO.

The Company has concluded that, at this time, it appears that the Montana Property has several interesting occurrences of PGM mineralization associated with the chromitites and gold associated with the fault zone that warrant further investigation. The Company has developed a two phase exploration program that it will begin in 2006 to further explore the Montana Property. Phase I is budgeted to cost

\$174,900 with Phase II having a budget of The details for the second phase of the 2006 exploration program should be finalized based on the results of first phase, as the information generated during first phase will influence and refine the geological model and further refine the exploration targets. The exploration targets that need to be further defined are the gold, PGM mineralization associated with the north trending fault zone and the PGM mineralization associated with the chromitite layers. Phase 2 of the work program on the Montana properties is contingent upon the Company raising additional equity from subsequent offerings of its shares or from the exercise of warrants from this Offering and is not included in the Use of Proceeds from this Offering.

The geochemical gold anomaly associated with the fault zone is open to the northwest and the southeast and additional soil samples should be collected to better define the zone. There are anomalous gold and PGM values on samples collected on the southern most line, which require follow-up, as the second line did not extend far enough to the west. The fault can be traced via surface mapping and through core drilling. The drilling will be required to trace the fault to the north under glacial debris and to determine the extent of the down dip mineralization.

The correlation between PGM values and chromitites is strong and therefore additional mapping and sampling along the strike of the chromitites is recommended to better define these horizons. The chromitites dip shallowly into the hillside and drilling is recommended to test the down dip extension of the mineralization.

### ***Cucurpe Property***

The Cucurpe property is comprised of 32 mining concessions covering approximately 11,797.86 hectares. The Company acquired 13 of the 32 concessions by staking carried out by its Mexican subsidiary, CMZ and holds a 100% interest in the 13 concessions (the "CMZ Concessions") comprising a total of 8,457.26 hectares. All of these claims are in good standing.

The balance of the 32 concessions comprising the Cucurpe Property, namely 19 concessions totalling 3,340.60 hectares contiguous to the CMZ Concessions were acquired pursuant to the Acuna Option Agreement. On June 17, 2005, the Company's wholly-owned Mexican subsidiary, Compania Minera Zorro de Plata, S.A. de C.V. ("CMZ") entered into an exploration contract and formal promise of entering into and executing a purchase agreement of mining properties with Emilio Acuna Peralta (the "Acuna Option Agreement") pursuant to which CMZ has acquired the option to acquire 19 mineral exploration concessions comprising 3,340.60 hectares in Sonora State, Mexico (the "CMZ Option Concessions").

In order to maintain the Acuna Option Agreement in good standing and earn its 100% interest in the CMZ Optioned Concessions, the Company is to make the following cash payments and incur the following exploration expenditures:

		Cash Payments		Complete Exploration Expenditures
Lump sum payment on or before September 20, 2005 (paid)	\$	15,000	\$	-
Incur exploration expenditures by May 20, 2006		-		200,000
Lump sum payment on or before January 20, 2007		75,000		-
Incur exploration expenditures by May 20, 2007		-		400,000
Lump sum payment on or before January 20, 2008		150,000		-
Incur exploration expenditures by May 20, 2008		-		900,000
Incur exploration expenditures by May 20, 2009				1,500,000
Lump Sum payment on or before May 20, 2009		3,583,000		
Total	\$	3,823,000	\$	3,000,000

Under the Acuna Option Agreement, upon completion of the four-year term of the Agreement, should there be a minimum proven gold reserve of 3,000,000 ounces or more on the CMZ Option Concessions, Acuna is to receive an additional payment of \$2,000,000 from the Company. The 19 optioned concessions (the "CMZ Optioned Concessions") are all in good standing.

Concessions in Sonora State, Mexico may be kept in good standing by incurring and filing sufficient exploration expenses to show intent to continue to explore the Concessions. In addition, the Company must pay duties twice yearly to the Mexican Government Department of Mines. The estimated duties on the 32 Concessions are \$5,400 per year.

Several ranchers control the surface access on the Sonora Property, and it is the Company's objective that CMZ, through Acuna, will negotiate access for the Company prior to commencing exploration activities. Acuna, the Company believes, has good relations with the ranchers in the area and to date has acquired the necessary surface access as needed by the Company from time to time. CMZ has entered into a Services Agreement with Emilio Acuna Peralta dated June 17, 2005 (the "Services Agreement") wherein Mr. Acuna has agreed to provide his services to negotiate the acquisition of surface access from various landowners and to provide his equipment and manpower in carrying out exploration programs on the Sonora Property as may be required by CMZ from time to time. The term of the Services Agreement is for a one-year term (automatically renewing for additional one-year terms unless notice to the contrary is delivered 60 days prior to the end of a term) at \$3,000 per month to December 20, 2005 and all payments have been made to date.

The primary rock type observed on the Cucurpe Property is a felsic intrusive rock. It is a porphyritic andesite likely the uppermost unit of the lower volcanic sequence and is abundant and widespread. Thin-layered siltstone sediments overlie the intrusives in most places and may be derived from waterlain volcanic ash. Near the northern limits of the Cucurpe Property boundary north dipping interbedded limestone and siltstone layers were observed. Intermediate composition dykes and sills intrude the siltstones and appear to be related to erratic high-grade mineralization.

The higher peaks are capped with younger rhyolite tuffs and possibly flow domes. Small-scale lamprophyre dykes crosscut all units and appear to have an intimate association with the gold mineralization in places. Quartz veins also crosscut all units and most quartz rich veins are also mineralized. Intense silicification of the country rock is common in mineralized areas.

Exploration to date indicates several potential deposit types. To date three general styles have been observed on the property: vein-like mineralized structures and structural stockworks, as well as placer deposits in some of the alluvium filled valleys. Structural preparation of the host rock, which commonly consists of andesite, rhyolite or highly altered felsic rock, precedes the mineralization event. The structures exhibit several episodes of faulting and silicification, with the central portion being very strongly silicified and the alteration and silicification diminishing in the host rock.

Little or no exploration has been conducted on the Cucurpe Property in recent times. Access to the Cucurpe Property was tightly controlled and the low gold price until 2 years ago also hampered exploration efforts. The Company conducted a due diligence review of the Cucurpe Property during the initial review of the Cucurpe Property. The Company followed up on the initial review, with a short-term reconnaissance level exploration program.

The program consisted of 2 experienced field geologists and 2 to 3 assistants traveling to the various prospects on the Cucurpe Property and collecting samples from vein systems where exposed in shallow pits, trenches or in adits. The objective of the program was to prioritize the prospects for future work. Due to the limited program goals and time constraints, the procedure utilized was to examine the majority of existing pits, trenches and showings. The geologist would collect representative samples at the prospect and map at a reconnaissance level, spending generally 1 day on the prospect. The geological assistants were local men familiar with the district and the geologist relied on the assistants' descriptions and directions to select the prospects to review. The geologist would describe the type of sample as grab sample, chip sample or soil sample. If the sample were a chip sample then the length of the chip would be noted as well as the orientation of the sample with respect to the orientation of the structure or mineralized zone. Sample locations were determined with a handheld GPS unit and the coordinates recorded in the field book.

The exploration on the Cucurpe Property to date has defined several zones of anomalous gold and silver mineralization. The mineralization is associated with northwest trending steeply dipping silicified fault zones and stockworks. The faults appear to have strike lengths of up to 8 kilometres based on air photo interpretation, topographical map interpretation and surface mapping. Although the faults are covered with alluvium in the low-lying valleys, they can be traced over topographical highs. It is unknown at this time if the faults are consistently mineralized over their strike lengths.

Several of the samples collected during the due diligence and reconnaissance phases returned some very high gold values and warrant follow-up. Based on the existence of numerous old adits and small working, it appears that prospectors mined high-grade ore shoots down to the interface between the oxides and sulphides. It is likely that the Cucurpe Property will contain extensions of the previously worked ore shoots as well as undiscovered ore shoots and that additional systematic work will be required to better define the targets.

There is evidence of historic placer gold mining operations down gradient from a number of the veins systems on the east side of the Cucurpe Property. Production records are not well documented, so no estimate can be made of past production.

The reconnaissance level exploration has developed a number of targets that require additional follow-up work. The historic pits, trenches and adits define the fault zones with higher gold values. A number of the adits were inaccessible and time constraints precluded examination of all prospects, so a priority should be additional mapping and sampling of the various prospects. Particular attention should be paid to the zones of silicification along strike from existing workings. The majority of the silicified fault zones are open along strike in both directions.

Geochemical soil sampling may prove effective in areas of residual soil, but will not be a viable procedure in the valley bottoms that are covered with alluvium. Trenching is effective in areas of shallow soil cover and gentle topography. Ground geophysics should also be utilized on a limited basis with the goal of tracing the fault zones.

The Phase 1 exploration program, was originally budgeted at \$68,900, will provide geological data and locate areas of anomalous mineralization. This information will be used by the Company to prioritize the properties and commence a detailed exploration program on the targets with the potential for substantive mineralization. The Phase 2 exploration program, was originally budgeted at \$187,000, will include detailed geologic mapping and sampling as well as drilling on the selected targets. The drilling will test areas of anomalous mineralization and will be designed to delineate mineralization along strike as well as down dip.

Due to the delays in completing the IPO process, the Company has moved several elements intended to occur in Phase II into Phase I, such that the budget for Phase I has been increased to the recently announced \$200,000 amount with Phase II decreased to \$55,900.

## **SELECTED ANNUAL INFORMATION**

Fiscal Period Ended	December 2005	December 2004
Total revenues	\$Nil	\$Nil
Net loss from continuing operations	\$195,799	\$110,912
Net loss	\$195,799	\$110,912
Basic and diluted loss per share	\$(0.02)	\$(0.03)
Total assets	\$796,302	\$537,203
Long-term financial liabilities	\$28,454	\$30,298
Cash dividends declared	\$Nil	\$Nil

## **RESULTS OF OPERATIONS**

The loss for the year was \$195,799, which compares to a loss of \$110,912 for the previous year. The increase in the loss for the current year is due to a number of factors including a full in 2005 as compared to approximately 10 months in 2004, from incorporation on February 27, 2004. The current year loss includes wages, fees and benefits of \$59,928 (2004 - \$36,530), which includes \$36,000 (2004 - \$30,000) in management fees to Delbert W. Steiner, the President of the Company. The amount also increased due to a full year of wages and benefits for our Montana office accountant and certain one-time fees related to potential additional exploration projects. The loss also includes an increase in travel costs to \$31,431 (2004 - \$6,949), which was due to a number of factors including a full year of operations, attendance at several conferences and trade shows, and a number of trips by management and directors indirectly related to fund raising, the IPO process and general and administrative duties. Rent expense increased to \$27,102 (2004 - \$3,911) due to a full year of operations, and the rent of office premises in Vancouver, Idaho and Mexico. During the current year, the Company wrote-off \$23,750 (2004 - \$Nil) of costs related to the terminated portion of the original Acuna agreement. The Company expensed \$7,017 (2004 - \$43,247) of costs related to the preliminary investigation of resource properties that were not pursued by the Company or upon which no agreements were completed nor claims acquired.

The Company incurred resource property costs of \$176,731 (2004 - \$442,132) during the year, as a result of exploration work completed on its Montana and Mexican properties. The decrease was due to the 2004 fiscal year including \$172,000 in acquisition costs for the Montana agreements settled by the issuance of shares and a further \$20,000 settled by the issuance of a promissory note. The current year costs were also lower as the Company awaiting the completion of the IPO and the receipt of the proceeds in order to commence the phased work programs on the Montana and Mexican properties. The current year costs were mainly related to care and maintenance as the Company paid its claim and concession fees and the monthly payments on the Mexican property and surface access agreements. The Company also paid the costs related to the 43-101 reports and carried out some limited geological work. In the prior year the Company conducted a small drill program on the Platinum Fox property in Montana.

## **SUMMARY OF QUARTERLY RESULTS**

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

Three Months Ended	Dec-05	Sep-05	Jun-05	Mar-05	Dec-04	Sep-04	Jun-04	Mar-04
Total Revenues	\$Nil	Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Loss from continuing operations	\$47,737	\$30,472	\$71,053	\$46,537	\$47,085	\$63,827	\$Nil	\$Nil
Loss for the period	\$47,737	\$30,472	\$71,053	\$46,537	\$47,085	\$63,827	\$Nil	\$Nil
Loss per share	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.00)	\$(0.01)	\$(0.03)	\$(0.00)	\$(0.00)

The quarterly losses for the year ended December 31, 2005 reflect a lower level of exploration activity and a higher level of administrative activity than in fiscal 2004 as discussed above (see *Results of Operations*). Comparison of 2005 quarterly results with those of 2004 is must be considered accordingly. The quarterly losses before stock-based compensation for fiscal 2005 were relatively consistent.

## **FINANCIAL POSITION AND LIQUIDITY**

Premium has no history of profitable operations and its mineral projects are at an early stage. Therefore, it is subject to many risks common to comparable companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

At the end of the year under review, the Company had a working capital deficiency of \$379,313 (2004 - \$25,686) and \$270,749 at the end of the third quarter 2005. The change during the quarter primarily reflects mineral exploration expenditures on the Montana and Mexico properties, together with indirect and administrative costs. The reduction in working capital over the previous year results from cash used in operating activities (\$59,193) and investing activities (\$157,595) outweighing cash provided by equity financing activities (\$135,504) during the year and the increase in accounts payable related to general and administrative operations as well as the increase related to exploration activities and the deferred financing costs.

At December 31, 2005, the Company had cash on hand of \$12,084 compared to \$93,368 at December 31, 2004. This cash balance was not adequate to fund ongoing expenses as required for its mineral property agreements and its general and administrative activities. The Company's ability to continue as a going concern is dependent on its ability to raise equity financing and attain profitable operations. The Company's 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. In February 2006, the Company completed its IPO and raised gross proceeds of C\$1.5 million from the issuance of 5 million common shares from treasury – See *Subsequent Events*.

## **CAPITAL RESOURCES AND COMMITMENTS**

The Company has mineral expenditure requirements under its East-West property agreement of \$50,000 by December 31, 2006. The Company also has annual claim rental fees of approximately \$17,125 in order to maintain its Montana properties in good standing.

The Company has to expend \$200,000 on the Mexican concessions covered by the Acuna Option Agreement by May 20, 2006. In addition, the Company must pay duties twice yearly to the Mexican Government Department of Mines. The estimated duties on the 32 Concessions are \$5,400 per year.

The Company has an agreement dated June 17, 2005, for the purposes of negotiating service access from the landowners in the area of the Company's resource properties. The agreement had an initial term of one year until December 2005 at \$3,000 per month and renewed for an additional year to December 2006. The contract may be terminated upon six months written notice by either party.

The Company has an agreement, with Delbert W. Steiner, President and Director, which call for monthly payments of \$3,000 each with a term of one year to 1 year to 1 March 2005, renewable upon mutual consent. The contract has been renewed and is next renewable at 1 March 2007.

As at December 31, 2005, the Company had insufficient capital to complete the terms of its property agreements and meet its overhead requirements for the ensuing year. In February 2006, the Company completed its IPO and raised gross proceeds of C\$1.5 million from the issuance of 5 million common shares from treasury – See *Subsequent Events*. It will be necessary for the Company to arrange for additional financing during the coming year 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 has successfully completed its IPO, 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 31 December 2005 or as at the date hereof.

## **RELATED PARTY TRANSACTIONS**

Transactions with related parties are disclosed in the financial statements and include management fees for the year of \$36,000 (2004 - \$30,000) paid or accrued to a director of the Company in his capacity as President. The increase in related party transactions over the prior year is due to the Company completing its first full year on its management contracts with the director (see – *Capital Resources and Commitments*). The Company also paid or accrued \$13,198 (2004 - \$Nil) in accounting fees to a professional partnership in which a director is a partner and incurred \$2,498 (2004 - \$Nil) in interest expense on a note payable to a director.

## **DISCUSSION OF FOURTH QUARTER RESULTS**

The fourth quarter of 2005 saw the Company decrease its exploration expenditures due to the shortage of working capital as the Company awaited the completion of its IPO.

General and administrative costs of \$47,737 incurred in the fourth quarter were higher than costs of \$30,472 incurred in the third quarter. The increase is due to the accrual for our 2005 annual audit and the \$7,017 expended on general exploration in the quarter.

Cash flows used in operations, before changes in non-cash working capital items, of \$27,440 were higher than the \$17,605 use of cash for operations in the previous quarter of 2005, reflecting the increased amount expended on general exploration in the quarter.

## **CHANGES IN ACCOUNTING POLICIES**

There were no changes in accounting policies in the year under review.

## **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, GST receivable, accounts payable, 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 December 31, 2005 audited financial statements provide a breakdown of the general and administrative expenses for the year under review (Statement 2) and an analysis of the capitalized and expensed exploration and development costs incurred on its mineral properties (Schedule and Note 3a).

## **OUTSTANDING SHARES**

As at December 31, 2005, the Company had 12,914,303 common shares issued and outstanding versus 7,100,001 common shares issued and outstanding at December 31, 2004. The increase over 2004 reflects the success of the Company in raising funds through the issue of new seed shares and the issuance of 4,225,000 common shares, which were fully paid and allotted at December 31, 2004 but not yet issued.

During the year, the Company issued the 4,225,000 common shares for cash proceeds of \$324,675 raised in 2004. The Company raised an additional \$52,609 on the issuance of 644,360 common shares from treasury pursuant to seed share agreements at C\$0.10 per share and a further \$115,130 on the issuance of 944,942 common shares from treasury pursuant to seed share agreements at C\$0.15 per share.

Issued and diluted shares outstanding as at the date hereof are 17,964,303 and 20,989,303 respectively. The increase from December 31, 2005 reflects the subsequent issuance of 5,000,000 shares on the closing of the IPO and a further 50,000 shares related to the broker's corporate finance fee.– see *Subsequent Events*.

## **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.

## **SUBSEQUENT EVENTS**

The Company has filed a prospectus and has signed an Agency Agreement for 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.

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. The Company also repaid \$47,222 of notes payable, which were outstanding at December 31, 2005, from the proceeds of the IPO.

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.

## **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 resource properties. The feasible development of such properties is highly dependent upon the price of gold. A sustained and substantial decline in commodity gold 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 gold commodity prices in order to assess the feasibility of its resource projects.

Exploration and development projects are subject to the environmental laws and regulations of the country within which the Company is conducting its operations. As such laws are subject to change, the Company carefully monitors proposed and potential changes, and ensures that it is and will be in strict compliance.

Various non-governmental organizations dedicated to environmental protection monitor, amongst others, the mining industry. These organizations have in the past commenced actions with the regulatory agencies or the courts to prevent or delay mining activities.

#### **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