

PREMIUM EXPLORATION INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

AUDITORS' REPORT

To the Shareholders of
Premium Exploration Inc.

We have audited the consolidated balance sheets of Premium Exploration Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 17, 2007

A Member of SC INTERNATIONAL

Consolidated Balance Sheets

As at December 31

U.S. Funds

ASSETS	2006		2005	
Current				
Cash	\$	439,290	\$	12,084
Receivables		29,694		9,520
Other		35,798		8,843
		504,782		30,447
Deferred Financing Costs		-		167,014
Resource Properties – Schedule (Note 5)		826,551		595,113
Property, Plant and Equipment (Note 6)		16,836		3,728
	\$	1,348,169	\$	796,302
LIABILITIES				
Current				
Accounts payable and accrued liabilities	\$	119,383	\$	249,869
Due to related parties (Note 10)		38,844		100,825
Notes payable (Note 7)		184,153		59,066
		342,380		409,760
Notes Payable (Note 7)		15,073		28,454
SHAREHOLDERS' EQUITY				
Share Capital (Note 8)		1,727,317		664,799
Share Purchase Warrants (Note 8)		378,592		-
Contributed Surplus (Note 8)		168,410		-
Cumulative Translation Adjustment		(1,536)		-
Deficit - Statement 2		(1,282,067)		(306,711)
		990,716		358,088
	\$	1,348,169	\$	796,302

Going Concern (Note 2)

Subsequent Events (Note 14)

ON BEHALF OF THE BOARD:

"Delbert W. Steiner", Director"Barney Green Lee", Director

Consolidated Statements of Loss and Deficit

U.S. Funds

	Year Ended December 31 2006	Year Ended December 31 2005
Expenses		
General exploration	\$ 33,161	\$ 7,017
Wages, fees and benefits	122,383	59,928
Stock-based compensation <i>(Note 8)</i>	168,410	-
Professional fees	101,709	18,688
Travel	99,590	31,431
Office rent	38,735	27,102
Office and general	26,131	8,466
Bank charges	7,982	2,004
Interest expense	12,914	3,898
Shareholder relations	76,223	4,094
Transfer agent and filing fees	36,819	-
Amortization	2,514	932
Interest income	(8,520)	-
Write-off of resource property costs	318,084	23,750
Foreign exchange (gain) loss	(60,779)	8,489
Net Loss for the Year	(975,356)	(195,799)
Deficit - Beginning of year	(306,711)	(110,912)
Deficit - End of Year	\$ (1,282,067)	\$ (306,711)
Loss per Share - Basic and Diluted	\$ (0.06)	\$ (0.02)
Weighted average number of common shares outstanding	17,235,262	11,514,994

Consolidated Statements of Cash Flows

U.S. Funds

	Year Ended December 31 2006	Year Ended December 31 2005
Operating Activities		
Loss for the year	\$ (975,356)	\$ (195,799)
Items not affecting cash		
Amortization	2,514	932
Stock-based compensation	168,410	-
Write-off of resource property costs	318,084	23,750
Changes in non-cash working capital items		
Receivables	(20,174)	(9,520)
Other assets	(26,955)	(7,140)
Accounts payable and accrued liabilities	(8,359)	83,758
Due to related parties	34,914	44,826
	<u>(506,922)</u>	<u>(59,193)</u>
Investing Activities		
Property, plant and equipment acquired	(15,622)	(4,660)
Resource property expenditures	(481,046)	(152,935)
	<u>(496,668)</u>	<u>(157,595)</u>
Financing Activities		
Shares issued for cash	1,451,668	167,739
Share purchase warrants issued for cash	347,487	-
Unit offering issuance costs	(275,206)	-
Deferred financing costs	-	(67,755)
Proceeds from notes payable	-	37,222
Repayment of notes payable	(34,054)	(1,702)
	<u>1,489,895</u>	<u>135,504</u>
Effect of foreign exchange on cash	<u>(59,099)</u>	<u>-</u>
Net Increase (Decrease) in Cash	427,206	(81,284)
Cash position - Beginning of year	12,084	93,368
Cash Position - End of Year	\$ 439,290	\$ 12,084

Supplemental Disclosure of Non-Cash Investing and Financing Transactions (Note 13)

Consolidated Schedule of Resource Property Costs

U.S. Funds

	Acquisition	Deferred Exploration	Year Ended December 31 2006	Year Ended December 31 2005
Platinum Fox Property, Montana, U.S.A.				
Assaying	\$ -	\$ 59,400	\$ 59,400	\$ 8,647
Drilling	-	2,000	2,000	4,063
Claim fees	-	6,750	6,750	7,746
Geological	-	3,417	3,417	8,247
Reports	-	845	845	9,944
Roads	-	-	-	65
General	-	-	-	731
Unrealized translation adjustment	10,403	13,481	23,884	-
	10,403	85,893	96,296	39,443
East-West Property, Montana, U.S.A.				
Claim fees	-	9,623	9,623	5,593
Geological	-	3,417	3,417	-
Transportation	-	-	-	5,998
Reports	-	846	846	4,950
General	-	-	-	(1,248)
Unrealized translation adjustment	11,688	1,084	12,772	(1,248)
	11,688	14,970	26,658	15,293
SD Property, Montana, U.S.A.				
Claim fees	-	750	750	820
Geological	-	1,316	1,316	-
Reports	-	846	846	5,000
General	-	-	-	-
Unrealized translation adjustment	351	256	607	-
	351	3,168	3,519	5,820
Bobcat Property, Montana, U.S.A.				
Claim fees	-	10,360	10,360	-
Geological	-	690	690	-
General	-	196	607	-
	-	11,246	11,246	-
Cucurpe Property, Sonora, Mexico				
Acquisition	-	-	-	63,538
Staking, filing and concession fees	-	9,834	9,834	7,482
General	-	39,883	39,883	631
Geological	-	36,953	36,953	15,794
Geochemical	-	32,483	32,483	-
Surface access	-	3,122	3,122	18,000
Field management	-	73,046	73,046	8,000
Assaying	-	-	-	2,730
Field transportation	-	22,724	22,724	-
Survey	-	8,379	8,379	-
Unrealized translation adjustment	(13,459)	33,152	19,693	-
	(13,459)	259,576	246,117	116,175

- See Accompanying Notes -

Consolidated Schedule of Resource Property Costs**- continued**

U.S. Funds

	Acquisition	Deferred Exploration	Year Ended December 31 2006	Year Ended December 31 2005
Nueva Galicia Property, Nayarit, Mexico				
Acquisition	41,719	-	41,719	-
Staking, filing and concession fees	-	3,975	3,975	-
General	-	20,568	20,568	-
Geological	-	56,968	56,968	-
Geochemical	-	3,068	3,068	-
Field management	-	7,682	7,682	-
Field transportation	-	9,917	9,917	-
Survey	-	8,357	8,357	-
	41,719	110,533	152,252	-
Guadalupe Property, Jalisco, Mexico				
Acquisition	4,868	-	4,868	-
General	-	1,046	1,046	-
	4,868	1,046	5,914	-
Dos Amigos Property, Nayarit, Mexico				
Field transportation	-	474	474	-
General	-	624	624	-
	-	1,098	1,098	-
San Pedro de Analco Property, Jalisco, Mexico				
Acquisition	4,868	-	4,868	-
Field transportation	-	200	200	-
General	-	1,354	1,354	-
	4,868	1,554	6,422	-
Total Costs for the Year	60,438	489,084	549,522	176,731
Write-off of resource property costs	(83,079)	(235,005)	(318,084)	(23,750)
Balance - Beginning of year	288,538	306,575	595,113	442,132
Balance - End of Year	\$ 265,897	\$ 560,654	\$ 826,551	\$ 595,113

- See Accompanying Notes -

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

1. Nature of Business

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. Effective March 1, 2006, the Company completed an Initial Public Offering ("IPO") to list on the TSX Venture Exchange ("TSX-V").

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.

2. Going Concern

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, 2006, the Company has an accumulated deficit of \$1,282,067 (2005 - \$306,711), 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.

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.

3. Change in Accounting Policy

Effective January 1, 2006, the Company determined that its functional currency had changed from the U.S. dollar to the Canadian dollar due to the IPO financing and anticipated future financings in Canadian funds and the establishment of a Canadian head office. The method of foreign currency translation was changed on a prospective basis from January 1, 2006 as described in Note 4.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

4. 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.

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

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

4. Significant Accounting Policies - *Continued*

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

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

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 earnings per share by application of the treasury stock method.

g) Asset Retirement Obligations

The Company applies the recommendations of CICA Handbook Section 3110, *Asset Retirement Obligations*. This section requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. 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.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

4. Significant Accounting Policies - *Continued*

h) Foreign Currency Translation

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

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

The accounts are then translated into the U.S. dollar, being the reporting currency, using the current rate method as follows:

- Assets and liabilities at year-end rates,
- Revenue and expense and exploration and development items at rates approximating those in effect at the date of the transaction, and
- Exchange gains and losses arising from these transactions are reflected in equity as a cumulative translation adjustment.

i) Deferred Financing Costs

The Company incurred certain costs related to its IPO, which were presented in these financial statements as deferred financing costs. These costs were treated as share issuance costs upon completion of the offering (*Note 8*). If the offering had not completed, the costs would have been written off as financing costs in the period that the offering was abandoned.

j) 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.

k) Comparative Figures

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

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

5. Resource Properties

a) Details of cumulative expenditures are as follows:

	Acquisition	Exploration	2006
Mineral Properties			
Platinum Fox Property, Montana, U.S.A. (Note 5b)	\$ 99,403	\$ 230,228	\$ 329,631
East-West Property, Montana, U.S.A. (Note 5c)	111,688	37,547	149,235
SD Property, Montana, U.S.A. (Note 5d)	3,351	9,863	13,214
Bobcat Property, Montana, U.S.A.	-	11,246	11,246
Cucurpe Property, Sonora, Mexico (Note 5f)	-	157,539	157,539
Nueva Galicia Property, Nayarit, Mexico (Note 5g)	41,719	110,533	152,252
Guadalupe Property, Jalisco, Mexico (Note 5h)	4,868	1,046	5,914
Dos Amigos Property, Nayarit, Mexico (Note 14a)	-	1,098	1,098
San Pedro de Analco Property, Jalisco, Mexico (Note 5i)	4,868	1,554	6,422
	<u>\$ 265,897</u>	<u>\$ 560,654</u>	<u>\$ 826,551</u>

	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 Property, Sonora, Mexico	96,538	132,968	229,506
	<u>\$ 288,538</u>	<u>\$ 306,575</u>	<u>\$ 595,113</u>

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, purchased 54 unpatented mining claims located in Sweetgrass County, Montana. In order to complete the acquisition the Company issued 840,000 escrow shares (fair value \$69,000) from treasury (Note 8c), issued a promissory note payable in the amount of \$20,000 (Note 7) to the vendor and completed C\$125,000 of exploration expenditures on the property by December 31, 2005.

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 escrow shares (fair value \$100,000) from treasury (Note 8c) and was required to complete C\$80,000 of exploration expenditures by December 31, 2006. The vendor has agreed to accept work done on contiguous properties as fulfilling the work requirement on this property.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

5. 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 escrow shares (*fair value \$3,000*) from treasury (*Note 8c*) and completing the agreed upon exploration expenditure requirements of the amended agreement.

e) Joint Exploration Agreement, Montana, U.S.A.

By a letter of intent dated September 1, 2006, the Company entered into an agreement with Beartooth Platinum Corporation (“Beartooth”) to jointly explore and share data on the Company’s properties in Montana, U.S.A. Under the terms of the agreement, Beartooth will be the operator and will pay all costs of the exploration activities, except the Company will pay the assaying costs. Contingent upon the results, Beartooth may negotiate a joint venture with the Company on the platinum group metals component of these properties. The Company may at its option include any silver or gold metals in the joint venture.

f) Cucurpe Property, Sonora, Mexico

i) The Company had staked and directly controlled 13 exploration concessions in the Caliche Hill area, known as the Cucurpe Property.

ii) 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 was required to make cash payments totaling \$3,823,000 and to complete exploration expenditures of \$3,000,000 before May 20, 2009. In October 2006, the optionor filed a lawsuit against the Company alleging that the \$200,000 work requirement due by May 30, 2006 had not been completed. The Company disputed this allegation but elected to settle the lawsuit by transferring one of its own exploration concessions and terminating the option agreement covering 19 exploration concessions prior to the \$75,000 cash payment due on or before January 20, 2007. The Company has recorded a write-off of capitalized costs of \$318,084 on the abandonment of this option during the year ended December 31, 2006.

iii) 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.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

5. Resource Properties - *Continued*

g) Nueva Galicia Property, Nayarit, Mexico

By an exploration agreement with purchase option dated July 7, 2006 and amended November 30, 2006, the Company has the rights to explore certain concessions located in the State of Nayarit, Mexico. In order to maintain the purchase option in good standing the Company must, at its option:

	Issue Shares from Treasury		Cash Payments		Complete Exploration Expenditures
7 July 2006	50,000 (i)	\$	30,000 (paid)	\$	-
7 January 2007	50,000 (ii)		40,000 (iii)		-
7 July 2007	50,000		50,000		150,000
7 January 2008	50,000		60,000		150,000
7 July 2008	75,000		70,000		400,000
7 July 2009	100,000		250,000		500,000
7 July 2010	125,000		500,000		600,000
Total	500,000	\$	1,000,000	\$	1,800,000

- (i) Issued at fair value \$9,440
- (ii) Issued subsequent to December 31, 2006
- (iii) Paid subsequent to December 31, 2006

The Company has the right to acquire the property for a payment of \$1,000,000 and the issuance of 500,000 common shares, less any cash payments or share issuances made to that date. Should the Company complete the acquisition and the property reaches commercial production, the vendor will be entitled to a further payment of up to 500,000 additional common shares, to a maximum value at the date of issuance of \$1,000,000.

h) Guadalupe Property, Jalisco, Mexico

By a letter of intent dated August 25, 2006, the Company paid \$5,000 and was granted the right to enter into an option to explore and acquire certain concessions located in the State of Jalisco, Mexico. The letter of intent allowed for a 135-day due diligence period to January 7, 2007 to enter into a definitive agreement whereby the Company would, at its option issue 450,000 shares in stages over 3 years, make cash payments of \$1,275,000 in stages over 3 years and incur exploration expenditures of \$1,800,000 over 3 years.

Subsequent to year-end, the Company did not elect to enter into a definitive agreement on this property.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

5. Resource Properties - *Continued*

i) San Pedro de Analco Property, Jalisco, Mexico

By a letter of intent dated August 25, 2006, the Company paid \$5,000 and was granted the right to enter into an option to explore and acquire certain concessions located in the State of Jalisco, Mexico. The letter of intent allowed for a 135-day due diligence period to January 7, 2007 to enter into a definitive agreement. On January 11, 2007 the Company entered into a definitive option agreement whereby the Company must complete the following in order to maintain the option in good standing:

	Issue Shares from Treasury		Cash Payments		Complete Exploration Expenditures
January 11, 2007	10,000	\$	25,000 (i)	\$	-
July 11, 2007	15,000		50,000		50,000
January 11, 2008	15,000		50,000		250,000
July 11, 2008	25,000		125,000		250,000
January 11, 2009	25,000		125,000		250,000
July 11, 2009	80,000		250,000		500,000
January 11, 2010	80,000		250,000		500,000
Total	250,000	\$	875,000	\$	1,800,000

(i) Paid subsequent to year-end and includes the \$5,000 paid on signing the letter of intent

6. Property, Plant and Equipment

Details are as follows:

	Cost	Accumulated Amortization	Net Book Value
December 31, 2006			
Furniture and fixtures	\$ 20,317	\$ 3,481	\$ 16,836
December 31, 2005			
Furniture and fixtures	\$ 4,660	\$ 932	\$ 3,728

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

7. Notes Payable

Details are as follows:

	2006	2005
Delbert Steiner, a director, promissory note payable, unsecured, bears interest at 8% per annum, due on demand – loan was assumed from Platinum Fox, LLC during 2006.	\$ 20,000	\$ 20,000
Delbert Steiner, a director, promissory note payable, unsecured, bears interest at 8% per annum and repayable at \$400 (\$350 – 2005) per month blended interest and principal	25,966	30,298
Delbert Steiner, a director, promissory note payable, unsecured, bears interest at 8% per annum and repayable on demand	106,260	10,000
Barney Green Lee, a director, promissory note payable, unsecured, bears interest at 8% per annum and repayable on demand	47,000	-
Ida-Mont Inc., promissory note payable, unsecured, repayable on the date the proceeds of the IPO are received. With interest and a finder fee totaling \$2,000 due on repayment.	-	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. With interest totaling \$3,444 due on repayment.	-	17,222
	199,226	87,520
Current portion	184,153	59,066
	\$ 15,073	\$ 28,454

8. 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 – 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

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

8. Share Capital - Continued

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

	Number of Shares Issued	Shares Amount	Number of Warrants Issued (i)	Warrants Amount	Total Amount
Balance – December 31, 2005	12,914,303	\$ 664,799	-	\$ -	\$ 664,799
Issuance of shares - IPO, including corporate finance fee units	5,050,000	1,084,557	2,525,000	252,728	1,337,285
Agent's warrants - IPO	-	-	500,000	99,741	99,741
Share issuance costs - IPO	-	(360,204)	-	(82,917)	(443,121)
Shares issued for resource property	50,000	9,440	-	-	9,440
Private placement	2,750,000	377,849	1,375,000	97,231	475,080
Agent's warrants - private placement	-	-	275,000	24,450	24,450
Share issuance costs - private placement	-	(49,124)	-	(12,641)	(61,765)
Balance – December 31, 2006	20,764,303	\$ 1,727,317	4,675,000	\$ 378,592	\$ 2,105,909

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

The Company completed an IPO of 5,000,000 units at C\$0.30 per unit for gross proceeds of \$1,337,285 (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, to March 1, 2008, from the date of the IPO at C\$0.40 per share. The Company received gross proceeds of \$1,176,240 (C\$1,335,621) on February 27, 2006 after deducting \$118,910 (C\$135,000) cash commission, the \$6,605 (C\$7,500) balance of the work fee of \$13,210 (C\$15,000) and the agent's expenses of the IPO. The Company also paid related legal fees and other costs related to the prospectus of approximately \$182,335, including the \$167,014 in deferred finance costs at December 31, 2005.

The agent also received 500,000 share purchase warrants (*fair value* \$99,741). Each agent's warrant allows the agent to acquire one additional common share for two years, to March 1, 2008, 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 (*fair value* \$13,373). 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, to March 1, 2008, from the date of the IPO at C\$0.40 per share.

The Company used the Black-Scholes model to allocate the proceeds of the unit offering between common shares and share purchase warrants and to value the agent's share purchase warrants using an estimated volatility of 100.00%, an estimated risk-free rate of 2.90%, an estimated dividend rate of 0.00% and an estimated life of the warrants of 2 years.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

8. Share Capital - *Continued*

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

The Company completed a private placement on December 14, 2006 of 2,750,000 units at C\$0.20 per unit for gross proceeds of \$475,080 (C\$550,000). 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 one year, to November 9, 2007, at C\$0.25 per share. The agent received a cash commission of \$37,315 (C\$43,200) and 275,000 share purchase warrants (*fair value \$24,450*). Each agent's warrant allows the agent to acquire one additional common share for one year, to November 9, 2007, from the date of the IPO at C\$0.25 per share.

The Company used the Black-Scholes model to allocate the proceeds of the unit offering between common shares and share purchase warrants and to value the agent's share purchase warrants using an estimated volatility of 152.90%, an estimated risk-free rate of 4.19%, an estimated dividend rate of 0.00% and an estimated life of the warrants of 1 year.

c) There were originally 7,280,001 shares, subject to an escrow agreement dated December 31, 2004 and an amendment dated November 1, 2005. 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 and 1,092,000 will be released at the completion of each six-month period after the initial listing date. As at December 31, 2006, there are 5,460,000 shares remaining subject to the amended escrow agreement.

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.

Stock option activity during the year is summarized as follows:

	Price	Expiry	Number of Options	Fair Value
Balance – December 31, 2005			-	\$ -
Granted – 1 March 2006	C\$0.30	March 1, 2011	900,000	179,533
Granted – 18 December 2006	C\$0.20	Nov. 15, 2011	1,025,000	163,188
Balance – December 31, 2006			1,925,000	342,721
Unvested – December 31, 2006			(1,026,042)	(174,311)
Vested - December 31, 2006			898,958	\$ 168,410

The Company used the Black-Scholes model to value the options using an estimated volatility of 100.00% - 152.90%, an estimated risk-free rate of 2.90% - 4.19%, an estimated dividend rate of 0.00% and an estimated life of the options of 5 years.

The weighted average fair value of options granted in the year was \$0.18 per option. The weighted average remaining contractual life of the options as of December 31, 2006 was 4.59 years. The weighted average remaining contractual life of options exercisable as of December 31, 2006 was 4.43 years.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

8. Share Capital - Continued

e) A summary of warrants outstanding is as follows:

	Price	Expiry	Number of Warrants (i)
Issued – March 1, 2006	C\$0.40	March 1, 2008	2,525,000
Issued – March 1, 2006 - Agent	C\$0.30	March 1, 2008	500,000
Issued – December 14, 2006	C\$0.25	November 9, 2007	1,375,000
Issued – December 14, 2006 - Agent	C\$0.25	November 9, 2007	275,000
Balance - December 31, 2006			4,675,000

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

9. 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:

	2006	2005
Non-capital loss carry-forwards – Canada – 34.12%	\$ 153,700	\$ 31,000
Non-capital loss carry-forwards – U.S. – 34.0%	109,500	47,000
Non-capital loss carry-forwards – Mexico – 30.0%	47,200	30,000
Property plant and equipment – Canada and Mexico	3,800	1,100
Share issuance costs – Canada – 34.12%	92,000	49,800
	406,200	158,900
Valuation allowance	(406,200)	(158,900)
Future Tax assets	\$ -	\$ -

b) A reconciliation of expected income tax expense (recovery) at statutory rates is as follows:

	2006	2005
Net loss for the year	\$ (975,356)	\$ (195,799)
Statutory tax rate	34.12%	35.60%
Tax expense (recovery) at statutory rate	(332,791)	(69,704)
Deductible share issuance costs	(25,043)	(12,421)
Non-deductible amortization expense	858	332
Non-taxable unrealized foreign exchange gains	(15,262)	-
Non-deductible stock-based compensation	57,461	-
Non-deductible resource property write-offs	108,530	8,455
Effect of foreign tax rates	2,580	2,738
Current year losses – valuation allowance	203,667	70,600
Income tax expense (recovery)	\$ -	\$ -

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

9. Income Taxes - *Continued*

- c) The Company has tax loss carry-forwards in Canada of approximately \$450,000, which expire up to 2016. The future potential tax savings associated with the loss carry-forwards has not been recognized in these financial statements.
 - d) The Company has tax loss carry-forwards in the United States of approximately \$322,000, which expire up to 2026. In addition, the Company has incurred approximately \$503,000 (2005 - \$366,000) 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.
 - e) The Company has tax loss carry-forwards in Mexico of approximately \$157,000, which expire up to 2016. In addition, the Company has incurred approximately \$323,000 (2005 - \$230,000) 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.
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10. Related Party Transactions

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

- a) The Company paid management fees, included in wages, fees and benefits, of \$56,000 (2005 - \$36,000) to a director in his capacity of chief executive officer.
- b) The balance of \$38,844 (2005 - \$100,825) due to related parties, is owing to directors and an accounting firm in which a former director is a partner and is unsecured and non-interest bearing.
- c) The Company incurred \$22,300 (2005 - \$13,198) in fees, recorded as professional fees and deferred finance costs, to a professional partnership in which a former director is a partner. The balance of these fees is included in due to related parties.
- d) The Company incurred \$12,914 (2005 - \$2,498) of interest on notes payable to directors and a former director (*Note 7*).

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.

11. 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 management's 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, 2006 and 2005

U.S. Funds

12. Segmented Information

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

December 31, 2006	Loss	Identifiable Assets
Canada	\$ 447,965	\$ 340,411
United States	147,931	534,863
Mexico	379,460	472,895
Total	\$ 975,356	\$ 1,348,169

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

13. Supplemental Disclosure of Non-Cash Investing and Financing Transactions

	2006	2005
Change in deferred financing costs/share issuance costs funded by accounts payable	\$ (78,338)	\$ 86,061
Change in deferred financing costs/share issuance costs funded by due to related parties	532	13,198
Change in resource property expenditures funded by accounts payable	10,140	63,843
Change in resource property expenditures funded by due to related parties	(8,667)	8,667
Note payable issued for accounts payable	57,000	-
Note payable issued for due to related parties	88,760	-
Share capital issued for mineral property acquisition	9,440	-
Share purchase warrants issued as share issuance costs	124,991	-
Interest received	8,520	-
Interest paid	16,114	698

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

U.S. Funds

14. Subsequent Events

In addition to items disclosed elsewhere in these financial statements the Company conducted the following transactions after December 31, 2006:

a) Property agreement

By a letter of intent dated January 23, 2007, the Company paid \$5,000 and was granted the right to enter into an option to explore and acquire certain concessions located in the State of Jalisco, Mexico. The letter of intent allows for a 120-day due diligence period to May 23, 2007 to enter into a definitive agreement whereby the Company would, at its option:

	Issue Shares from Treasury		Cash Payments		Complete Exploration Expenditures
On signing definitive agreement	-	\$	25,000 (i)	\$	-
6 months after definitive agreement	25,000		50,000		50,000
12 months after definitive agreement	50,000		150,000		200,000
18 months after definitive agreement	-		200,000		-
24 months after definitive agreement	75,000		300,000		400,000
30 months after definitive agreement	-		300,000		-
36 months after definitive agreement	100,000		450,000		1,000,000
Total	250,000	\$	1,475,000	\$	1,650,000

(i) Including the \$5,000 paid subsequent to December 31, 2006 on signing the letter of intent

The property is subject to a 1% net smelter return from commercial production.

b) Stock options

On March 5, 2007, the Company granted 1,500,000 stock options to directors, officers and consultants for 5 years, to March 5, 2012, at C\$0.23 per share.

c) Private placements

On March 12, 2007, the Company issued 3,300,000 units on two private placements at C\$0.25 per unit for gross proceeds of C\$825,000. 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 one year at C\$0.35 per share. The Company paid the agent a commission of C\$42,000 and 210,000 common share purchase warrants and a finder fee of \$30,000 was also paid. Each agent's warrant allows the agent to acquire one additional common share for one year at C\$0.30 per share.
