

PREMIUM EXPLORATION INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

Interim Consolidated Balance Sheets

U.S. Funds

ASSETS	As at June, 2006 (Unaudited)	As at December 31, 2005
Current		
Cash	\$ 665,546	\$ 12,084
Receivables	-	9,520
GST receivable	11,229	8,305
Prepaid expenses	21,758	538
	<u>698,533</u>	<u>30,447</u>
Deferred Financing Costs	-	167,014
Resource Properties – Schedule (Note 3)	725,220	595,113
Property, Plant and Equipment (Note 4)	16,501	3,728
	<u>\$ 1,440,254</u>	<u>\$ 796,302</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 136,881	\$ 249,869
Due to related parties (Note 7b)	117,052	100,825
Notes payable (Note 5)	21,868	59,066
	<u>275,801</u>	<u>409,760</u>
Notes payable (Note 5)	<u>27,517</u>	<u>28,454</u>
Continued Operations (Note 1)		
Subsequent Events (Note 10)		
SHAREHOLDERS' EQUITY		
Share Capital (Note 6)	1,642,093	664,799
Contributed Surplus (Note 6d)	30,368	-
Deficit - Statement 2	(535,525)	(306,711)
	<u>1,136,936</u>	<u>358,088</u>
	<u>\$ 1,440,254</u>	<u>\$ 796,302</u>

ON BEHALF OF THE BOARD:

"Delbert W. Steiner", Director

"Dave McMillan", Director

Interim Consolidated Statements of Loss and Deficit

U.S. Funds

	For the Three Months Ended June 30 2006 (Unaudited)	For the Three Months Ended June 30 2005 (Unaudited)	For the Six Months Ended June 30 2006 (Unaudited)	For the Six Months Ended June 30 2005 (Unaudited)
Expenses				
Wages, fees and benefits	\$ 25,810	\$ 14,086	\$ 48,384	\$ 30,219
Stock-based compensation	9,189	-	30,368	-
Professional fees	14,540	1,501	26,658	3,001
Travel	31,079	11,767	60,690	24,869
Office rent	6,710	10,855	14,982	18,403
Office and general	5,790	1,905	9,328	6,773
Bank charges and interest	1,933	2,284	11,712	3,018
Shareholder relations	26,631	1,927	41,973	2,783
Transfer agent and filing fees	24,273	(1,563)	24,273	-
Amortization	590	233	1,174	466
Interest income	(3,649)	-	(4,941)	-
Foreign exchange (gain) loss	(29,527)	4,308	(35,787)	4,308
Net Loss for the Period	113,369	47,303	228,814	93,840
Deficit - Beginning of period	422,156	157,449	306,711	110,912
Deficit - End of Period	\$ 535,525	\$ 204,752	\$ 535,525	\$ 204,752
Loss per Share - Basic and Diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	17,964,303	7,513,563	14,602,248	7,513,563

Interim Consolidated Statements of Cash Flows

U.S. Funds

	For the Three Months Ended June 30 2006 (Unaudited)	For the Three Months Ended June 30 2005 (Unaudited)	For the Six Months Ended June 30 2006 (Unaudited)	For the Six Months Ended June 30 2005 (Unaudited)
Operating Activities				
Loss for the period	\$ (113,369)	\$ (47,303)	\$ (228,814)	\$ (93,840)
Items not affecting cash				
Amortization	242	233	1,174	466
Stock-based compensation	9,189	-	30,368	-
Changes in non-cash working capital items				
Accounts receivable	-	-	9,520	-
GST receivable	3,599	(303)	(2,924)	(595)
Prepaid expenses	(19,880)	7	(21,220)	1,193
Accounts payable and accrued liabilities	5,822	16,577	(30,845)	13,871
Due to related parties	337	17,067	16,227	27,225
	(114,060)	(13,722)	(226,514)	(51,680)
Investing Activities				
Property, plant and equipment acquired	(1,160)	-	(13,947)	(4,660)
Resource property expenditures	(73,806)	(42,922)	(133,613)	(75,475)
	(74,966)	(42,922)	(147,560)	(80,135)
Financing Activities				
Shares issued and allotted for cash	-	16,129	1,298,927	68,738
Share issuance costs	-	-	(233,256)	-
Deferred financing costs	-	(14,799)	-	(15,615)
Notes payable	(457)	(844)	(38,135)	(844)
	(457)	486	1,027,536	52,279
Net Increase (Decrease) in Cash	(189,483)	(56,158)	653,462	(79,536)
Cash position - Beginning of period	855,029	69,990	12,084	93,368
Cash Position - End of Period	\$ 665,546	\$ 13,832	\$ 665,546	\$ 13,832
Supplemental Schedule of Non-Cash Investing and Financing Transactions				
Deferred financing costs funded by increases in accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 6,532
Deferred financing costs funded by increases in due to related parties	\$ -	\$ 24,435	\$ -	\$ 30,885
Deferred financing costs transferred to share issuance costs	\$ -	\$ -	\$ (67,755)	\$ -
Share issuance costs funded by increases in accounts payable and accrued liabilities	\$ -	\$ -	\$ 7,424	\$ -
Share issuance costs funded by increases in due to related parties	\$ -	\$ -	\$ 13,198	\$ -
Resource property expenditures funded (paid) by increases (decreases) in accounts payable and accrued liabilities	\$ 12,048	\$ 8,500	\$ (3,506)	\$ 15,379
Resource property expenditures funded by increases in due to related parties	\$ -	\$ -	\$ -	\$ 8,667

- See Accompanying Notes -

Interim Consolidated Schedule of Resource Property Costs

For the Six Months Ended June 30

U.S. Funds

	Acquisition (Unaudited)	Deferred Exploration (Unaudited)	2006 (Unaudited)	2005 (Unaudited)
Platinum Fox Property, Montana, U.S.A.				
Assaying	-	-	-	8,647
Drilling	-	2,000	2,000	4,863
Claim fees	-	-	-	336
Geological	-	2,400	2,400	8,673
Reports	-	845	845	10,101
	-	5,245	5,245	32,620
East-West Property, Montana, U.S.A.				
Claim fees	-	9,519	9,519	1,858
Geological	-	2,400	2,400	50
Reports	-	846	846	5,050
	-	12,765	12,765	6,958
SD Property, Montana, U.S.A.				
Geological	-	2,400	2,400	-
Reports	-	846	846	5,200
	-	3,246	3,246	5,200
Caliche Hill Property, Sonora, Mexico				
Acquisition	-	-	-	27,750
Staking, filing and concession fees	-	5,267	5,267	-
General	-	9,928	9,928	7,869
Geological	-	22,023	22,023	15,794
Geochemical	-	5,395	5,395	-
Surface access	-	9,300	9,300	-
Project management	-	24,217	24,217	-
Assaying	-	2,500	2,500	2,730
Field transportation	-	6,551	6,551	-
Survey	-	8,050	8,050	-
	-	31,133	31,133	54,143
Nueva Galicia, Sonora, Mexico				
Staking, filing and concession fees	-	11,421	11,421	-
General	-	1,676	1,676	-
Geological	-	2,068	2,068	-
Field transportation	-	240	240	-
Survey	-	215	215	-
	-	15,620	15,620	-
Total Costs for the Period	-	130,107	130,107	98,921
Balance - Beginning of period	285,538	309,575	595,113	442,132
Balance - End of Period	\$ 285,538	\$ 439,682	\$ 725,220	\$ 541,053

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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 6).

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 June 30, 2006, the Company has working capital of \$422,732 (December 31, 2005 a deficit of \$379,313) and an accumulated deficit of \$535,525 (December 31, 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.

2. Significant Accounting Policies

These unaudited interim consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for the preparation of interim financial information. Accordingly, they do not include all of the information and disclosure required by Canadian GAAP for annual consolidated financial statements. The accounting policies used in the preparation of these unaudited interim consolidated financial statements are the same as those described in the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2005. In the opinion of management, all of the adjustments necessary to fairly present the interim financial information set forth herein have been made. These adjustments are of a normal and recurring nature.

Interim operating results for the period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2006. These unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements and related footnotes for the year ended December 31, 2005.

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

June 30, 2006

U.S. Funds

2. Significant Accounting Policies - *Continued*

These interim 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:

Automotive equipment - 30% declining balance
Furniture and fixtures - 20% declining balance

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

June 30, 2006

U.S. Funds

2. Significant Accounting Policies - Continued

d) 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.

e) Deferred Financing Costs

The Company has incurred certain costs related to its IPO, which are presented in these financial statements as deferred financing costs. If the IPO completes, these costs will be treated as share issuance costs upon completion of the offering. If the offering does not complete, the costs will be written off as financing costs in the period that the offering is abandoned.

3. Resource Properties

a) Details of cumulative expenditures are as follows:

	Acquisition	Exploration	June 30, 2006 (Unaudited)
Mineral Properties			
Platinum Fox Property, Montana, U.S.A.	\$ 89,000	\$ 149,580	\$ 238,580
East-West Property, Montana, U.S.A.	100,000	35,342	135,342
SD Property, Montana, U.S.A.	3,000	9,941	12,941
Caliche Hill Property, Sonora, Mexico	96,538	226,199	322,737
Nueva Galicia Property, Sonora, Mexico (Note 10)	-	15,620	15,620
	\$ 288,538	\$ 439,682	\$ 725,220

	Acquisition	Exploration	December 31, 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
Caliche Hill Property, Sonora, Mexico	96,538	132,968	229,506
	\$ 288,538	\$ 306,575	\$ 595,113

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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.

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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) Caliche Hill Property, Sonora, Mexico

- i) The Company has staked and directly controls 13 exploration concessions in the Caliche Hill property area.
- 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 (Completed)	\$ 15,000	\$ -
By May 20, 2006 (Completed)	-	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
	\$ 3,823,000	\$ 3,000,000

Notes to the Interim Consolidated Financial Statements

June 30, 2006

U.S. Funds

3. Resource Properties - *Continued*

e) **Caliche Hill Property, 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. The agreement is subject to regulatory approval in Canada.

- 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 period ended September 30, 2005.

4. Property, Plant and Equipment

Details are as follows:

	Cost (Unaudited)	Accumulated Amortization (Unaudited)	June 30, 2006 Net Book Value (Unaudited)	December 31, 2005 Net Book Value
Automotive equipment	\$ 7,000	\$ 525	\$ 6,475	\$ -
Furniture and fixtures	10,805	779	10,026	3,728
	\$ 17,805	\$ 1,304	\$ 16,501	\$ 3,728

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

June 30, 2006

U.S. Funds

5. Notes Payable

Details are as follows:

	June 30, 2006 (Unaudited)	December 31, 2005
Delbert Steiner, a director, promissory note payable, unsecured, bears interest at 8% per annum, due on demand <i>(Note 3b)</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	29,385	30,298
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 paid on repayment of the principal.	-	10,000
Kenneth A. Scott, Inc., a company controlled by a director, promissory note payable, unsecured, repaid from the proceeds of the IPO. With interest totaling \$3,444 paid on repayment of the principal.	-	17,222
	49,385	87,520
Current portion	21,868	59,066
	\$ 27,517	\$ 28,454

- (i) On March 1, 2006, the note was assigned from Platinum Fox, LLC to Delbert Steiner and then a new demand note was issued.
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Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

June 30, 2006

U.S. Funds

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 – December 31, 2005	-	12,914,303	12,914,303	\$ 664,799
Issuance of shares for cash on IPO	-	5,000,000	5,000,000	1,298,927
Issuance of shares for corporate finance fee	-	50,000	50,000	12,989
Share issuance costs	-	-	-	(334,622)
Balance – June 30, 2006 (Unaudited)	-	17,964,303	17,964,303	\$ 1,642,093
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 (Unaudited)	-	633,360	644,360	52,609
Balance – March 31, 2005 (Unaudited)	-	11,969,361	11,969,361	\$ 549,669

c) Escrow Shares

The 7,100,001 shares outstanding at December 31, 2004 are subject to an escrow agreement dated December 31, 2004. Under the terms of this agreement 710,001 shares were released from escrow on the date the shares of the Company were listed on a Canadian exchange and 1,065,000 will be released at the completion of each six-month period after the initial listing date of March 1, 2006.

d) Contributed Surplus

	2006		2005	
Balance – beginning of period	\$	-	\$	-
Stock-based compensation (Note 6e)		30,368		-
Fair value of stock options exercised in the period		-		-
Balance – end of period	\$	30,368	\$	-

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

June 30, 2006

U.S. Funds

6. Share Capital - *Continued*

- e) 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. The option exercise price shall not be less than the discounted market price as defined by TSX-V policies.

Details of the stock options outstanding at June 30 are as follows:

2006	2005	Exercise Price	Expiry Date
750,000	-	C\$0.30	March 1, 2011

The weighted average exercise price of the stock options outstanding at June 30, 2006 is C\$0.30 and the weighted average remaining contract life of the options is 4.67 years.

During the period ended June 30, 2006, the Company issued stock options and recognized stock-based compensation as follows:

	2006	2005
Total options granted	750,000	-
Average exercise price	C\$0.30	-
Estimated fair value of compensation	\$ 84,161	\$ -
Estimated fair value per option	C\$0.11	-
Compensation recognized in the quarter ended March 31	\$ 21,179	\$ -
Compensation recognized in the quarter ended June 30	9,189	-
Compensation recognized in the period ended June 30	\$ 30,368	\$ -

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

	2006	2005
Risk-free interest rate	2.90%	-
Expected dividend yield	0.00%	-
Expected stock price volatility	37.45%	-
Expected option life in years	5	-

The Black-Scholes Option-Pricing Model was created for use in estimating the fair value of freely tradable, fully transferable options. The Company's stock options have characteristics significantly different from those of traded options, and because changes in the highly subjective input assumptions can materially affect the calculated values, management believes that the accepted Black-Scholes model does not necessarily provide a reliable measure of the fair value of the Company's stock option awards.

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

June 30, 2006

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7. Related Party Transactions

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

- a) During the six months ended June 30, 2006, the Company incurred management fees of \$26,000 (Unaudited) (2005 - \$18,000) charged by a director. The balance of these fees is included in due to related parties.
- b) The balance of \$117,052 (Unaudited) (December 31, 2005 - \$100,825) due to related parties, is owing to directors and is unsecured and non-interest bearing.
- c) During the six months ended June 30, 2006, the Company incurred \$9,179 (Unaudited) (2005 - \$1,081) of interest on notes payable to a director and a company controlled by a former director (Note 5).
- d) During the six months ended June 30, 2006, the Company incurred \$10,135 (Unaudited) (2005 - \$6,614) of accounting fees to a professional partnership in which a former director is a partner.

8. Financial Instruments

The fair value of the Company's cash, 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, currency, 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.

9. Segmented Information

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

June 30, 2006 (Unaudited)		Loss		Identifiable Assets
Canada	\$	117,825	\$	653,062
United States		95,216		427,039
Mexico		15,773		360,153
Total	\$	228,814	\$	1,440,254

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

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

June 30, 2006

U.S. Funds

10. Subsequent Events

The Company completed its initial assessment of the new property in Mexico and based on this assessment executed a definitive agreement to acquire a 100% interest in the property. The definitive agreement gives the Company the option to acquire certain 50 year concessions on the property, which expire between 2050 and 2055. The definitive agreement requires the Company, in order to maintain its purchase option, to conduct the following:

	Make Cash Payments (ii)	Issue Common Shares (ii)	Incur Exploration Expenditures (ii)
On signing the agreement	\$30,000(i)	50,000	
6 months from the date of the agreement	\$40,000	50,000	
12 months from the date of the agreement	\$50,000	50,000	\$150,000
18 months from the date of the agreement	\$60,000	50,000	\$150,000
24 months from the date of the agreement	\$70,000	75,000	\$400,000
36 months from the date of the agreement	\$250,000	100,000	\$500,000
48 months from the date of the agreement	\$500,000	125,000	\$600,000
	<u>\$1,000,000</u>	<u>500,000</u>	<u>\$1,800,000</u>

- (i) A deposit of \$7,500 was given to the licensee at the time the definitive agreement was signed and the balance will be paid upon receipt of regulatory approval.
- (ii) Subject to regulatory approval.

Should the property attain commercial production, the Company must complete the preceding option commitments and issue the licensee the lesser of \$1,000,000 or 500,000 additional common shares.
