

PREMIUM EXPLORATION INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006

Interim Consolidated Balance Sheets

U.S. Funds

ASSETS	As at September, 2006 (Unaudited)	As at December 31, 2005
Current		
Cash	\$ 376,198	\$ 12,084
Receivables	-	9,520
GST receivable	16,222	8,305
Prepaid expenses	20,705	538
	<u>413,125</u>	<u>30,447</u>
Deferred Financing Costs	-	167,014
Resource Properties – Schedule (Note 3)	573,491	595,113
Property, Plant and Equipment (Note 4)	17,806	3,728
	<u>\$ 1,004,422</u>	<u>\$ 796,302</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 140,749	\$ 249,869
Due to related parties (Note 7b)	114,854	100,825
Notes payable (Note 5)	24,800	59,066
	<u>280,403</u>	<u>409,760</u>
Notes payable (Note 5)	<u>23,568</u>	<u>28,454</u>
Going Concern (Note 1)		
SHAREHOLDERS' EQUITY (Note 6)		
Share Capital (Notes 6a, 6b, 6c and 6e)	1,642,093	664,799
Contributed Surplus (Note 6d)	39,479	-
Deficit - Statement 2	(981,121)	(306,711)
	<u>700,451</u>	<u>358,088</u>
	<u>\$ 1,004,422</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 September 30 2006 (Unaudited)	For the Three Months Ended September 30 2005 (Unaudited)	For the Nine Months Ended September 30 2006 (Unaudited)	For the Nine Months Ended September 30 2005 (Unaudited)
Expenses				
Wages, fees and benefits	\$ 33,319	\$ 14,940	\$ 81,703	\$ 45,159
Stock-based compensation	9,111	-	39,479	-
Professional fees	33,929	2,200	60,587	5,201
Travel	9,756	3,630	70,446	28,499
Office rent	11,339	2,931	26,321	21,334
Office and general	4,166	949	13,494	7,722
Bank charges and interest	1,784	1,616	13,496	4,634
Shareholder relations	9,603	607	51,576	3,390
Transfer agent and filing fees	5,270	-	29,543	-
Amortization	1,223	233	2,397	699
Write-off resource property cost	321,798	-	321,798	23,750
Interest income	(2,668)	-	(7,609)	-
Foreign exchange (gain) loss	6,966	3,366	(28,821)	7,674
Net Loss for the Period	445,596	30,472	674,410	148,062
Deficit - Beginning of period	535,525	228,502	306,711	110,912
Deficit - End of Period	\$ 981,121	\$ 258,974	\$ 981,121	\$ 258,974
Loss per Share - Basic and Diluted	\$ (0.02)	\$ (0.00)	\$ (0.04)	\$ (0.01)
Weighted average number of common shares outstanding	17,964,303	12,344,506	15,875,125	11,043,431

- See Accompanying Notes -

Interim Consolidated Statements of Cash Flows

U.S. Funds

	For the Three Months Ended September 30 2006 (Unaudited)	For the Three Months Ended September 30 2005 (Unaudited)	For the Nine Months Ended September 30 2006 (Unaudited)	For the Nine Months Ended September 30 2005 (Unaudited)
Operating Activities				
Loss for the period	\$ (445,596)	\$ (30,472)	\$ (674,410)	\$ (148,062)
Items not affecting cash				
Amortization	1,223	233	2,397	699
Write-off resource property costs	321,798	-	321,798	23,750
Stock-based compensation	9,111	-	39,479	-
Changes in non-cash working capital items				
Accounts receivable	-	-	9,520	-
GST receivable	(4,993)	(36)	(7,917)	(631)
Prepaid expenses	1,053	(28)	(20,167)	1,165
Accounts payable and accrued liabilities	9,294	8,501	(21,551)	11,554
Due to related parties	(2,198)	4,197	14,029	31,426
	(110,308)	(17,605)	(336,822)	(80,099)
Investing Activities				
Property, plant and equipment acquired	(2,528)	-	(16,475)	(4,660)
Resource property expenditures	(175,495)	(32,957)	(309,108)	(108,432)
	(178,023)	(32,957)	(325,583)	(113,092)
Financing Activities				
Shares issued and allotted for cash	-	99,001	1,298,927	167,739
Share issuance costs	-	-	(233,256)	-
Deferred financing costs	-	(31,153)	-	(35,954)
Notes payable	(1,017)	(425)	(39,152)	(1,269)
	(1,017)	67,423	1,026,519	130,516
Net Increase (Decrease) in Cash	(289,348)	16,861	364,114	(62,675)
Cash position - Beginning of period	665,546	13,832	12,084	93,368
Cash Position - End of Period	\$ 376,198	\$ 30,693	\$ 376,198	\$ 30,693
Supplemental Schedule of Non-Cash Investing and Financing Transactions				
Deferred financing costs funded by increases in due to related parties	\$ -	\$ 31,849	\$ -	\$ 73,552
Deferred financing costs transferred to share issuance costs	\$ -	\$ 5,943	\$ (67,755)	\$ 12,471
Share issuance costs funded (paid) by increases (decreases) in accounts payable and accrued liabilities	\$ (7,424)	\$ -	\$ -	\$ -
Share issuance costs funded (paid) by increases (decreases) in due to related parties	\$ (13,198)	\$ -	\$ -	\$ -
Resource property expenditures funded (paid) by increases (decreases) in accounts payable and accrued liabilities	\$ (5,426)	\$ 376	\$ (8,932)	\$ 15,755
Resource property expenditures funded by increases in due to related parties	\$ -	\$ -	\$ -	\$ 8,067

- See Accompanying Notes -

Interim Consolidated Schedule of Resource Property Costs

For the Nine Months Ended September 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	2,863
Claim fees	-	6,750	6,750	7,746
General	-	-	-	426
Geological	-	3,417	3,417	8,247
Reports	-	845	845	11,944
	-	13,012	13,012	39,873
East-West Property, Montana, U.S.A.				
Claim fees	-	9,623	9,623	5,253
Geological	-	3,417	3,417	4,600
Reports	-	846	846	4,500
	-	13,886	13,886	14,353
SD Property, Montana, U.S.A.				
Claim fees	-	750	750	820
Geological	-	1,316	1,316	-
Reports	-	846	846	4,600
	-	2,912	2,912	5,420
Bobcat Property, Montana, U.S.A.				
Claim fees	-	10,360	10,360	-
Geological	-	1,000	1,000	-
	-	11,360	11,360	-
Caliche Hill Property, Sonora, Mexico				
Acquisition	-	-	-	38,532
Staking, filing and concession fees	-	10,220	10,220	5,921
General	-	31,891	31,891	631
Geological	-	27,710	27,710	15,794
Geochemical	-	19,437	19,437	-
Surface access	-	3,481	3,481	9,000
Project management	-	83,681	83,681	-
Assaying	-	77	77	2,730
Field transportation	-	18,085	18,085	-
Survey	-	8,399	8,399	-
	-	202,981	202,981	72,608

Interim Consolidated Schedule of Resource Property Costs

For the Nine Months Ended September 30

U.S. Funds

	Acquisition (Unaudited)	Deferred Exploration (Unaudited)	2006 (Unaudited)	2005 (Unaudited)
Nueva Galicia, Sonora, Mexico				
Acquisition costs	30,000	-	30,000	-
Staking, filing and concession fees	-	1,421	1,421	-
General	-	3,613	3,613	-
Geological	-	9,329	9,329	-
Field transportation	-	240	240	-
Survey	-	382	382	-
	30,000	14,985	44,985	-
Other, Mexico				
Acquisition costs	10,000	-	10,000	-
General	-	1,040	1,040	-
	10,000	11,040	11,040	-
Total Costs for the Period	40,000	260,176	300,176	132,254
Write-off resource property costs	(96,538)	(225,260)	(321,798)	(23,750)
Balance - Beginning of period	288,538	306,575	595,113	442,132
Balance - End of Period	\$ 232,000	\$ 341,491	\$ 573,491	\$ 550,636

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

September 30, 2006

U.S. Funds

1. Nature of Business and Going Concern

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 September 30, 2006, the Company has working capital of \$132,722 (December 31, 2005 a deficit of \$379,313) and an accumulated deficit of \$981,121 (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 September 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

September 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 and computer equipment - 30% declining balance
Furniture and fixtures - 20% declining balance

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

September 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.

3. Resource Properties

a) Details of cumulative expenditures are as follows:

	Acquisition	Exploration	September 30, 2006 (Unaudited)
Mineral Properties			
Platinum Fox Property, Montana, U.S.A.	\$ 89,000	\$ 157,347	\$ 246,347
East-West Property, Montana, U.S.A.	100,000	36,463	136,463
SD Property, Montana, U.S.A.	3,000	9,607	12,607
Bobcat Property, Montana, U.S.A.	-	11,360	11,360
Cucurpe Property, Sonora, Mexico	-	110,689	110,689
Nueva Galicia Property, Sonora, Mexico	30,000	14,985	44,985
Other, Mexico	10,000	1,040	11,040
	\$ 232,000	\$ 341,491	\$ 573,491

	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
Cucurpe Property, Sonora, Mexico	96,538	132,968	229,506
	\$ 288,538	\$ 306,575	\$ 595,113

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

September 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 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

September 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) **Cucurpe Property, Sonora, Mexico**

i) The Company has staked and directly controls 13 exploration concessions in the Cucurpe property area.

ii) Pursuant to 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 September 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 complete \$3,000,000 of cumulative exploration expenditures by May 20, 2009 and make cash payments totaling \$3,823,000 by May 20, 2009.

Subsequent to September 30, 2006, the Company reached an agreement with the optionor of the September 17, 2005 agreement and terminated the agreement prior to earning any interest in these 19 exploration concessions. The Company also agreed to transfer one of the Company's staked claims in the area of these concessions in full and complete settlement of all outstanding claims between the parties. The Company has recorded a write-down of \$321,798 being all acquisition and exploration expenditures related to these concessions.

The Company retains 12 exploration concessions in the Cucurpe property area.

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

September 30, 2006

U.S. Funds

3. Resource Properties - *Continued*

f) Nueva Galicia Property, Sonora, Mexico

During the quarter ended September 30, 2006, 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 concessions, with 50 year terms, 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	Issue Common Shares	Incur Exploration Expenditures
On signing the agreement	\$30,000(i)	50,000 (ii)	
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) Paid.

(ii) Issued after September 30, 2006 upon receipt of 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.

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

September 30, 2006

U.S. Funds

4. Property, Plant and Equipment

Details are as follows:

	Cost (Unaudited)	Accumulated Amortization (Unaudited)	September 30, 2006 Net Book Value (Unaudited)	December 31, 2005 Net Book Value
Automotive equipment	\$ 7,128	\$ 795	\$ 6,333	\$ -
Computer equipment	9,347	1,044	8,303	-
Furniture and fixtures	4,660	1,490	3,170	3,728
	\$ 21,135	\$ 3,329	\$ 17,806	\$ 3,728

5. Notes Payable

Details are as follows:

	September 30, 2006 (Unaudited)	December 31, 2005
Delbert Steiner, a director, promissory note payable, unsecured, bears interest at 8% per annum, due on demand	\$ 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	28,368	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, and repaid on the date the proceeds of the IPO were received (<i>Note 6b</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
	48,368	87,520
Current portion	24,800	59,066
	\$ 23,568	\$ 28,454

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

September 30, 2006

U.S. Funds

6. Shareholders' Equity

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 – September 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. At September 30, 2006 there are 5,115,000 shares remaining in escrow.

d) Contributed Surplus

	2006		2005
Balance – beginning of period	\$	-	\$ -
Stock-based compensation (Note 6e)		39,479	-
Fair value of stock options exercised in the period		-	-
Balance – end of period	\$	39,479	\$ -

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

September 30, 2006

U.S. Funds

6. Shareholders' Equity - 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 September 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 September 30, 2006 is C\$0.30 and the weighted average remaining contract life of the options is 4.33 years.

During the period ended September 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 recorded to June 30, 2006	\$ 30,368	\$ -
Compensation recorded in the quarter ended September 30, 2006	9,111	-
Compensation recorded in the period ended September 30, 2006	\$ 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

September 30, 2006

U.S. Funds

7. Related Party Transactions

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

- a) During the nine months ended September 30, 2006, the Company incurred management fees of \$41,000 (Unaudited) (2005 - \$27,000) charged by a director. The balance of these fees is included in due to related parties.
- b) The balance of \$114,854 (Unaudited) (December 31, 2005 - \$100,825) due to related parties, is owing to directors and is unsecured and non-interest bearing.
- c) During the nine months ended September 30, 2006, the Company incurred \$9,579 (Unaudited) (2005 - \$1,881) of interest on notes payable to a director and a company controlled by a former director (Note 5).
- d) During the six months ended September 30, 2006, the Company incurred \$12,359 (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, GST receivable, accounts payable and accrued liabilities, 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:

September 30, 2006 (Unaudited)	Loss	Identifiable Assets
Canada	\$ 194,349	\$ 297,342
United States	130,773	409,878
Mexico	349,288	297,202
Total	\$ 674,410	\$ 1,004,422

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
