

**PREMIUM EXPLORATION INC.**  
**Report to Shareholders and**  
**Management Discussion and Analysis**  
**Of the Financial Position and Results of Operations**  
**For the Quarter Ended September 30, 2006**

**Dated November 28, 2006**

---

**TO OUR SHAREHOLDERS:**

This Management's Discussion and Analysis ("MD&A") supplements, but does not form part of, the interim consolidated financial statements of the Company and the notes thereto for the quarter ended September 30, 2006. Consequently, the following discussion and analysis of the financial condition and results of operations for Premium Exploration Inc. ("Premium" or the "Company"), should be read in conjunction with the interim consolidated financial statements for the quarter ended September 30, 2006 and related notes therein, which have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied.

Discussion of the Company, its operations and associated risks is further described in the Company's filings, available for viewing at [www.sedar.com](http://www.sedar.com). A copy of this MD&A will be provided to any applicant upon request.

**FORWARD-LOOKING STATEMENTS**

Certain statements contained in the following MD&A and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth in the Company's filings and herein.

**GENERAL**

Premium is a mineral exploration company that has unproven mineral property interests in Montana, USA and Sonora, Mexico. Our principal business activities have been the exploration of the mineral properties known as the Montana Property, located in the Stillwater Complex, the State of Montana, United States of America and the Cucurpe Property located in the State of Sonora, Mexico. The Company's Montana Property consists of 137 mining claims acquired through three separate acquisition agreements that were completed during the third and fourth quarters of 2004. The Company's Cucurpe property located in Mexico consisted of 32 mining concessions and was acquired by staking 13 new concessions during the first quarter of 2005, and the completion of an acquisition agreement on July 17, 2005 for the balance of the 19 mining concessions. Subsequent to September 30, 2006, the Company reached an agreement with the optionor of the Cucurpe property and terminated the agreement. The Company abandoned all interest in the 19 mining concessions covered by the agreement and agreed to transfer one of its staked concessions in the area. All property transactions have been conducted on an arm's length basis between the Company and the vendors.

The Montana Property and the Cucurpe Property are the primary exploration properties held by the Company – see *Mineral Exploration*. The Company has also recently acquired the Nueva Galicia Property in Mexico - see *Mineral Exploration*.

## **SIGNIFICANT EVENTS AND TRANSACTIONS**

During the quarter ended September 30, 2006, the Company conducted the following significant events or transactions:

- Announced the preliminary results of its initial assessment of the Nueva Galicia project, located near Nayarit, Mexico and that it had executed a definitive agreement on the project. The Company can earn its interest by making staged payments over 4 years totalling \$1 million, issuing 500,000 common shares and incurring exploration expenditures of \$1.8 million, of which \$150,000 must be spent in the first year. Should the project attain commercial production then the optionor will receive the lesser of \$1 million in cash or 500,000 common shares of the Company. The agreement is subject to regulatory approval, which is currently in progress.
- Announced the resignation of Kenneth Scott, as Chief Financial Officer and as a member of the Board of Directors, for personal reasons. Mr. Scott was recently named as a partner of PricewaterhouseCoopers, LLP.
- Announced the commencement of the 2006 Montana exploration program, upon receipt of Gallatin National Forest approvals and announced the completion of the final portion of the 2005 program, which was delayed due to inclement weather in October 2005. Based on the results of the completion of the 2005 program, the Company has made application for a significant increase in drill targets.
- Announced that the budgeted \$200,000 soil sampling and mapping program on the Cucurpe project was in progress with results expected late in the fourth quarter or early 2007. The Company also announced that it was currently compiling airborne magnetic data and regional geochemistry data, obtained from the Servicio Geologico Mexicano, on the entire Cucurpe property.
- Announced entering into two independent letters of intent on properties located in the State of Jalisco, Mexico. Under the terms of each of these letters of intent the Company has paid the owner \$5,000 for the exclusive right to a 135 day due diligence period in order to assess the merits of entering into a definitive acquisition agreement to acquire a 100% interest in each property.

## **MINERAL EXPLORATION**

### ***Montana Property***

During the quarter ended September 30, 2006, the expenditures on the Montana property, continued to be very limited as the Company concentrated on its Mexican properties and due to the forest fires delaying the planned July commencement of the summer 2006 exploration program.

On October 10, 2006, the Company announced that it had entered into a strategic alliance with Beartooth Platinum Corporation ("BPC") for the exploration of our mutual and contiguous properties in Montana. BPC will undertake a mapping, sampling and ground-based geophysical study of the Company's claims in the Chrome Mountain area and will pay all associated costs, except the Company will pay all costs associated with assaying the samples collected under the joint exploration program. This will result in substantial cost-savings for the Company. As part of the strategic alliance, the Company has granted BPC the right to enter into a 50-50 joint venture on certain of the Company's Montana properties. The terms of the joint venture will be determined upon completion of the current joint program, should the parties choose to continue. The joint venture will not cover the gold and silver exploration targets and the Company will continue to retain and explore its Pine claims zone.

### ***Cucurpe Property***

The exploration program on the Cucurpe property was amended in the first quarter of 2006 to provide for a Phase I budget of \$200,000 and a Phase II budget of \$55,900. The program was commenced in early May and the Company expended approximately \$203,000 on the program during 2006, for a total of \$336,000 in exploration thereby completing its \$200,000 expenditure requirement. The results of the 2006 exploration program did not meet management criteria to continue with the option agreement and accordingly the Company entered into negotiations to terminate the agreement.

Subsequent to September 30, 2006, the Company reached an agreement and terminated the Cucurpe option agreement. The Company did not earn any interest in the related 19 mining concessions and also agreed to transfer one of its own staked mining concessions in the area. The Company has recorded a write-down of \$321,798 in the period ended September 30, 2006 related to the termination of the agreement.

### ***Nueva Galicia Property***

The Company expended \$45,000 to September 30, 2006 to complete its preliminary assessment of the project and to make the required cash payments under the definitive agreement concluded in the quarter. The Company has also recently staked an additional 1,910 hectares adjacent to and within the project. The Company has initiated a program of sampling and mapping to develop drill targets for testing in January 2007. In November 2007, the Company announced that it intends to raise C\$500,000 by way of a private placement of 2,500,000 units at C\$0.20 per unit to fund the planned exploration of this property. The private placement is subject to regulatory approval.

## **RESULTS OF OPERATIONS**

The loss for the quarter ended September 30, 2006 was \$445,596, which compares to a loss of \$30,472 for the comparable quarter of 2005. The increase in the loss for the current quarter is due to a number of factors including the \$321,798 write-down of the Cucurpe property, significant increases in wages and fees, stock-based compensation, travel costs, professional fees, transfer agent and filing fees and shareholder relations. These increases were budgeted to increase substantially upon the Company completing its Initial Public Offering in March 2006. The current quarter loss includes wages, fees and benefits of \$33,319 (2005 - \$14,940), which includes \$15,000 (2005 - \$9,000) in management fees to Delbert W. Steiner, the President of the Company. The amount also increased due to a full quarter of wages and benefits for our Vancouver and Idaho offices. The loss also includes an increase in travel costs to \$9,756 (2005 - \$3,630), which was due to a number of factors including attendance at conferences and trade shows, and a number of trips by management and directors related to their general and administrative duties. Professional fees increased to \$33,929 from \$2,200 due to the legal fees related to the annual meeting, new management fee contracts and new property agreements. Shareholder relations increased to \$9,603 (2005 - \$607) due to final costs associated with the annual meeting materials. Transfer agent and filing fees also increased as a result of the March 1, 2006 IPO.

During the quarter ended September 30, 2006, the Company incurred resource property costs of \$170,069 (2005 - \$33,333) as a result of exploration work completed on its Montana and Mexican properties. The increase was due to the lack of cash curtailing activity in 2005 and the commencement of the 2006 work program in Mexico and the completion of the 2005 program during 2006 in Montana.

## **SUMMARY OF QUARTERLY RESULTS**

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

Three Months Ended	Sep-06	Jun-06	Mar-06	Dec-05	Sep-05	Jun-05	Mar-05	Dec-04
Total Revenues	\$Nil	\$Nil	\$Nil	\$Nil	Nil	\$Nil	\$Nil	\$Nil
Loss from continuing operations	\$445,596	\$113,369	\$94,266	\$47,737	\$30,472	\$71,053	\$46,537	\$47,085
Loss for the period	\$445,596	\$113,369	\$94,266	\$47,737	\$30,472	\$71,053	\$46,537	\$47,085
Loss per share	\$(0.02)	\$(0.01)	\$(0.01)	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.00)	\$(0.01)

The quarterly losses for the year ended December 31, 2005 reflect a lower level of exploration activity and a higher level of administrative activity than in fiscal 2004. The quarterly losses for 2006 have increased due to the completion of the IPO in March 2006 and the resultant ramp up of activity. The loss for the quarter ended September 30, 2006 is also higher than prior quarters due to the \$321,798 write-down related to the termination of the Cucurpe option agreement.

## **FINANCIAL POSITION AND LIQUIDITY**

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

At the end of the quarter under review, the Company had a working capital of \$132,722 as compared to a working capital deficiency of \$379,313 at December 31, 2005. The change during the period primarily reflects the proceeds of the IPO less the increased exploration and general and administrative activity.

At September 30, 2006, the Company had cash on hand of \$376,198 compared to \$12,084 at December 31, 2005. Management believes that additional financing will be needed to fund ongoing expenses as required for its mineral property agreements and its general and administrative activities for the current exploration season, including additional funds for the Nueva Galicia option agreement and for the continued exploration of the Montana properties. Management has recently announced a private placement, subject to regulatory approval of C\$500,000, as previously described.

## **CAPITAL RESOURCES AND COMMITMENTS**

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

The Company has recently entered into a new property agreement known as the Nueva Galicia project. The Company must make cash payments totalling \$120,000, issue 150,000 common shares and incur \$150,000 in qualifying exploration expenditures in the next 12 months in order to maintain this option.

The Company has an agreement, with Delbert W. Steiner, President and Director, which calls for monthly payments of \$5,000 and a term of five years to 1 March 2011.

The Company also has an agreement with Nancy Reardon, Chief Operating Officer and Director, which calls for monthly payments of C\$6,000 and a term of two years to 1 September 2008.

It will be necessary for the Company to arrange for additional to meet its ongoing exploration and overhead requirements.

Management believes it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. Although the Company has successfully completed its IPO, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company had no off-balance sheet arrangements as at September 30, 2006 and as at the date hereof.

#### **RELATED PARTY TRANSACTIONS**

Transactions with related parties are disclosed in the financial statements and include management fees for the nine-month period of \$41,000 (2005 - \$27,000) paid or accrued to a director of the Company in his capacity as President. The Company also paid or accrued accounting fees for the nine-month period of \$12,359 (2005 - \$6,614) to a professional partnership in which a former director is a partner and incurred \$9,579 (2005 - \$1,881) in interest expense on a note payable to a director and to a company controlled by a former director in the nine-month period.

#### **CHANGES IN ACCOUNTING POLICIES**

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

## **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, GST receivable, accounts payable and accrued liabilities, due to related parties and notes payable. The Company maintains most of its cash in Canadian dollars. However, amounts are converted into U.S. dollars and Mexican pesos and are therefore subject to changes in fair value due to fluctuations in exchange rates. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## **DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Consistent with other companies in the mineral exploration industry, Premium has no source of operating revenue. The Company's September 30, 2006 interim consolidated financial statements provide a breakdown of the general and administrative expenses for the year under review (Statement 2) and an analysis of the capitalized and expensed exploration and development costs incurred on its mineral properties (Schedule and Note 3a).

## **OUTSTANDING SHARES**

As at September 30, 2006, the Company had 17,964,303 common shares issued and outstanding versus 12,914,303 common shares issued and outstanding at December 31, 2005. The increase over 2005 reflects the success of the Company in completing its IPO during the first quarter of 2006.

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

## **INVESTOR RELATIONS ACTIVITIES**

With respect to public relations, the Company's policy is to provide information from its corporate offices to investors and brokers directly.

## **MANAGEMENT**

Premium is very dependent upon the personal efforts and commitments of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of Premium could result, and other persons would be required to manage and operate the Company.

## **SUBSEQUENT EVENTS**

- Announced the appointment of Robert McLeod, M.Sc., P.Geo., as a member of the Board of Directors. Mr. McLeod has worked extensively in various tectonic and orogenic environments throughout North America with an emphasis on epigenetic gold, volcanogenetic massive sulphide and magmatic Cu-Ni-PGM exploration projects, which are similar to the Company's exploration targets.

## **RISK FACTORS**

Companies operating in the mining industry face many and varied kinds of risks. While risk management cannot eliminate the impact of all potential risks, the Company strives to manage such risks to the extent possible and practical. Following are the risk factors most applicable to the Company:

Exploring and developing mineral resource projects bears a high potential for all manner of risks. Additionally, few exploration projects successfully achieve development due to factors that cannot be predicted or foreseen. Moreover, even one such factor may result in the economic viability of a project being detrimentally impacted such that it is neither feasible nor practical to proceed. The Company closely monitors its activities and those factors that could impact them, and employs experienced consulting, engineering, insurance and legal advisors to assist in its risk management reviews.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

At present the principal activity of the Company is the exploration and development of gold resource properties. The feasible development of such properties is highly dependent upon the price of gold. A sustained and substantial decline in commodity gold prices could result in the write-down, termination of exploration and development work or loss of its interests in identified resource properties. Although such prices cannot be forecasted with certainty, the Company carefully monitors factors that could affect gold commodity prices in order to assess the feasibility of its resource projects.

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

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

## **APPROVAL**

The Board of Directors of the Company has approved the disclosure contained in this Annual Management Discussion and Analysis.

Respectfully submitted  
On Behalf of the Board of Directors

*"Delbert W. Steiner"*

Delbert W. Steiner  
President