

PREMIUM EXPLORATION INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

MANAGEMENT COMMENT

These interim consolidated financial statements for the three months ended March 31, 2007 of Premium Exploration Inc. have been prepared by management and have not been subject to review by the Company's auditors.

Interim Consolidated Balance Sheets

U.S. Funds

| ASSETS | As at March 31, 2007 (Unaudited) | As at December 31, 2006 |
|--|---|-------------------------------|
| Current | | |
| Cash | \$ 376,346 | \$ 439,290 |
| Receivables | 37,524 | 29,694 |
| Other | 120,711 | 35,798 |
| | <u>534,581</u> | 504,782 |
| Resource Properties – Schedule (Note 3) | 1,091,742 | 826,551 |
| Property, Plant and Equipment (Note 4) | 212,353 | 16,836 |
| | <u>\$ 1,838,676</u> | <u>\$ 1,348,169</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 86,226 | \$ 119,383 |
| Due to related parties (Note 8) | 30,515 | 38,844 |
| Notes payable (Note 5) | 178,060 | 184,153 |
| | <u>294,801</u> | 342,380 |
| Notes payable (Note 5) | <u>12,876</u> | 15,073 |
| SHAREHOLDERS' EQUITY | | |
| Share Capital (Note 8) | 2,167,574 | 1,727,317 |
| Share Purchase Warrants (Note 8) | 670,786 | 378,592 |
| Contributed Surplus (Note 8) | 536,395 | 168,410 |
| Accumulated other comprehensive income (loss) (Note 3c) | (70,817) | (1,536) |
| Deficit - Statement 2 | <u>(1,772,939)</u> | <u>(1,282,067)</u> |
| | <u>1,530,999</u> | 990,716 |
| | <u>\$ 1,838,676</u> | <u>\$ 1,348,169</u> |

Going Concern (Note 2)

ON BEHALF OF THE BOARD:

_____, Director

_____, Director

- See Accompanying Notes -

Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the Three Months Ended March 31

U.S. Funds

| | 2007 (Unaudited) | 2006 (Unaudited) |
|---|---------------------|---------------------|
| Expenses | | |
| Wages, fees and benefits | \$ 48,802 | \$ 22,574 |
| Professional fees | 8,225 | 12,118 |
| Travel | 29,287 | 29,611 |
| Office rent | 13,126 | 8,272 |
| Office and general | 8,153 | 3,538 |
| Bank charges and interest | 3,850 | 9,779 |
| Shareholder relations | 39,169 | 15,342 |
| Transfer agent and filing fees | 8,396 | - |
| Stock-based compensation [| 373,389 | - |
| Amortization | 8,492 | 584 |
| Interest income | (7,757) | (1,292) |
| Foreign exchange (gain) | (42,260) | (6,260) |
| Net Loss for the Period | 490,872 | 94,266 |
| Deficit - Beginning of period | 1,282,067 | 306,711 |
| Deficit - End of Period | \$ 1,772,939 | \$ 400,977 |
| Loss per Share - Basic and Diluted | \$ (0.02) | \$ (0.01) |
| Weighted average number of common shares outstanding | 21,508,192 | 13,343,207 |
| Net Loss for the Period | \$ 490,872 | \$ 94,266 |
| Other comprehensive loss (Note 3c) | 69,281 | - |
| Comprehensive Loss for the Period | \$ 560,153 | \$ 94,266 |

Interim Consolidated Statements of Cash Flows

For the Three Months Ended March 31

U.S. Funds

| | 2007 (Unaudited) | 2006 (Unaudited) |
|--|---------------------|---------------------|
| Operating Activities | | |
| Loss for the period | \$ (490,872) | \$ (94,266) |
| Items not affecting cash | | |
| Amortization | 8,492 | 932 |
| Stock-based compensation | 373,389 | - |
| Changes in non-cash working capital items | | |
| Accounts receivable | (7,830) | 2,997 |
| Prepaid expenses | (84,913) | (1,340) |
| Accounts payable and accrued liabilities | (181,123) | (36,667) |
| Due to related parties | (8,329) | 15,890 |
| | <u>(391,186)</u> | <u>(112,454)</u> |
| Investing Activities | | |
| Property, plant and equipment acquired | (204,009) | (12,787) |
| Resource property expenditures | (105,975) | (59,807) |
| | <u>(309,984)</u> | <u>(72,594)</u> |
| Financing Activities | | |
| Shares issued and allotted for cash | 440,184 | 1,298,927 |
| Share purchase warrants issued for cash | 292,194 | - |
| Share issuance costs | (11,177) | (233,256) |
| Notes payable | (8,290) | (37,678) |
| | <u>712,911</u> | <u>1,027,993</u> |
| Effect of exchange rates on cash and cash | <u>(74,685)</u> | <u>-</u> |
| Net Increase (Decrease) in Cash | (62,944) | 842,945 |
| Cash position - Beginning of period | <u>439,290</u> | <u>93,368</u> |
| Cash Position - End of Period | \$ 376,346 | \$ 936,313 |

Interim Consolidated Schedule of Resource Property Costs

For the Three Months Ended March 31

U.S. Funds

| | Acquisition (Unaudited) | Deferred Exploration (Unaudited) | 2007 (Unaudited) | 2006 (Unaudited) |
|---|----------------------------|--|---------------------|---------------------|
| Montana Properties, U.S.A. | | | | |
| Assaying | \$ - | \$ 59,323 | \$ 59,323 | \$ - |
| Drilling | - | - | - | 2,000 |
| Claim fees | - | - | - | 4,060 |
| Geological | - | - | - | 5,460 |
| Reports | - | - | - | 1,600 |
| Field transportation | - | 3,709 | 3,709 | - |
| General | - | 4,760 | 4,760 | - |
| Unrealized translation adjustment | 1,987 | 3,682 | 5,669 | - |
| | 1,987 | 71,474 | 73,461 | 13,120 |
| Caliche Hill Property, Sonora, Mexico | | | | |
| Staking, filing and concession fees | - | 1,821 | 1,821 | 5,110 |
| General | - | 152 | 152 | 1,923 |
| Surface access | - | - | - | 9,300 |
| Project management | - | - | - | 12,000 |
| Assaying | - | - | - | 2,500 |
| Field transportation | - | - | - | 300 |
| Unrealized translation adjustment | - | 1,462 | 1,462 | - |
| | - | 3,435 | 3,435 | 38,323 |
| Nueva Galicia Property, Nayarit, Mexico | | | | |
| Acquisition | 32,261 | - | 32,261 | - |
| Staking, filing and concession fees | - | 13,367 | 13,367 | - |
| General | - | 23,626 | 23,626 | - |
| Geological | - | 21,581 | 21,581 | - |
| Geochemical | - | 3,175 | 3,175 | - |
| Field management | - | 4,729 | 4,729 | - |
| Field transportation | - | 15,340 | 15,340 | - |
| Unrealized translation adjustment | 386 | 1,022 | 1,408 | - |
| | 32,647 | 82,840 | 115,487 | - |

Premium Exploration Inc.

Schedule

Interim Consolidated Schedule of Resource Property Costs

For the Three Months Ended March 31

U.S. Funds

| | Acquisition (Unaudited) | Deferred Exploration (Unaudited) | 2007 (Unaudited) | 2006 (Unaudited) |
|---|----------------------------|--|-----------------------------|---------------------|
| Guadalupe Property, Jalisco, Mexico | | | | |
| Unrealized translation adjustment | 45 | 10 | 55 | - |
| | <u>45</u> | <u>10</u> | <u>55</u> | <u>-</u> |
| Dos Amigos Property, Nayarit, Mexico | | | | |
| Unrealized translation adjustment | - | 10 | 10 | - |
| | <u>-</u> | <u>10</u> | <u>10</u> | <u>-</u> |
| San Pedro de Analco Property, Jalisco, Mexico | | | | |
| Field transportation | - | 13,768 | 13,768 | - |
| General | - | 58,927 | 58,927 | - |
| Unrealized translation adjustment | 45 | 13 | 58 | - |
| | <u>45</u> | <u>72,708</u> | <u>72,753</u> | <u>-</u> |
| Total Costs for the Period | 34,724 | 230,467 | 265,191 | 44,253 |
| Balance - Beginning of period | 265,897 | 560,654 | 826,551 | 309,575 |
| Balance – End of Period | <u>\$ 300,621</u> | <u>791,121</u> | <u>\$ 1,091,742</u> | <u>\$ 353,828</u> |

- See Accompanying Notes -

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

March 31, 2007

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 March 31, 2007, the Company has an accumulated deficit of \$1,772,939 (2006 - \$1,282,067), 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. Changes in Accounting Policies

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

- a) Section 3855 – Financial Instruments – Recognition and Measurement. Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. Investments classified as available for sale are reported at fair market value (or mark to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Investments subject to significant influence are reported at cost and not adjusted to fair market value. The adoption of Section 3855 had no impact on the opening equity and the current period losses or comprehensive losses of the Company.

Premium Exploration Inc.

Notes to the Interim Consolidated Financial Statements

March 31, 2007

U.S. Funds

3. Changes in Accounting Policies – Continued

b) Section 1530 – Comprehensive Income. Comprehensive Income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available for sale securities which are not included in net income (loss) until realized.

c) The effects of the adoption of Section 1530 are as follows:

| | December 31, 2006 As Previously Reported | | Restatement | December 31, 2006 As Restated | | |
|--|---|---------|-------------|-------------------------------------|----|---------|
| Balance Sheet | | | | | | |
| Cumulative Translation Adjustment | \$ | (1,536) | \$ | 1,536 | \$ | - |
| Accumulated Other Comprehensive Income | \$ | - | \$ | (1,536) | \$ | (1,536) |

d) Accumulated Other Comprehensive Income (Loss)

| | March 31, 2007 | |
|--|-------------------|-----------------|
| Balance – December 31, 2006 (As Restated) | \$ | (1,536) |
| Unrealized adjustment on translation to reporting currency | | (69,281) |
| Balance – March 31, 2007 | \$ | (70,817) |

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

March 31, 2007

U.S. Funds

4. 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, 2006. 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 March 31, 2007 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, 2006.

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.

Notes to the Consolidated Financial Statements

March 31, 2007

U.S. Funds

4. Significant Accounting Policies – *Continued*

b) Resource properties *Continued*

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

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.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

March 31, 2007

U.S. Funds

4. Significant Accounting Policies - *Continued*

g) 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.

h) 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.

i) Comparative Figures

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

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

March 31, 2007

U.S. Funds

5. Resource Properties

a) Details of cumulative expenditures are as follows:

| | Acquisition | Exploration | March 31, 2007 (Unaudited) |
|---|-------------------|-------------------|----------------------------------|
| Mineral Properties | | | |
| Montana Properties, U.S.A. (Notes 5b and 5c) | \$ 216,429 | 360,358 | \$ 576,787 |
| Cucurpe Property, Sonora, Mexico (Note 5d) | - | 160,974 | 160,974 |
| Nueva Galicia Property, Nayarit, Mexico (Note 5e) | 74,366 | 193,373 | 267,739 |
| Guadalupe Property, Jalisco, Mexico (Note 5f) | 4,913 | 1,056 | 5,969 |
| Dos Amigos Property, Nayarit, Mexico (Note 5g) | - | 1,108 | 1,108 |
| San Pedro de Analco Property, Jalisco, Mexico (Note 5h) | 4,913 | 74,262 | 79,175 |
| | <u>\$ 300,621</u> | <u>\$ 791,131</u> | <u>\$ 1,091,752</u> |

| | Acquisition | Exploration | December 31, 2006 |
|---|-------------------|-------------------|----------------------|
| Mineral Properties | | | |
| Montana Properties, U.S.A. (Notes 5b and 5c) | \$ 214,442 | \$ 288,884 | \$ 503,326 |
| Cucurpe Property, Sonora, Mexico (Note 5d) | - | 157,539 | 157,539 |
| Nueva Galicia Property, Nayarit, Mexico (Note 5e) | 41,719 | 110,533 | 152,252 |
| Guadalupe Property, Jalisco, Mexico (Note 5f) | 4,868 | 1,046 | 5,914 |
| Dos Amigos Property, Nayarit, Mexico (Note 5g) | - | 1,098 | 1,098 |
| San Pedro de Analco Property, Jalisco, Mexico (Note 5h) | 4,868 | 1,554 | 6,422 |
| | <u>\$ 265,897</u> | <u>\$ 560,654</u> | <u>\$ 826,551</u> |

b) **Montana Properties, U.S.A.**

As provided by certain agreements and subsequent amendments, the Company, through its subsidiary Premium USA, purchased 137 unpatented mining claims located in Sweetgrass County, Montana. In order to complete the acquisition the Company issued 2,100,000 escrow shares (fair value \$172,000) from treasury (Note 8c), paid \$20,000 to one of the vendors and completed the required exploration expenditures on the properties.

The Company has subsequently staked an additional 30 claims, which are contiguous to the 137 acquired claims.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

March 31, 2007

U.S. Funds

5. Resource Properties – *Continued*

c) **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.

d) **Cucurpe Property, Sonora, Mexico**

- i) At December 31, 2006, the Company had staked and directly controlled 12 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. 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 recorded a write-off of capitalized costs of \$318,084 on the abandonment of this option during the year ended December 31, 2006.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

March 31, 2007

U.S. Funds

5. Resource Properties - *Continued*

e) 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 (paid) | | - |
| 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 at fair value \$9,758

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.

f) 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 the period, the Company did not elect to enter into a definitive agreement on this property.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

March 31, 2007

U.S. Funds

5. Resource Properties - Continued

g) Dos Amigos Property, Nayarit, Mexico

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 January 23, 2007 on signing the letter of intent

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

h) 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(i) | \$ | 25,000 (ii) | \$ | - |
| 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) Issued subsequent to the period end

(ii) Paid and includes the \$5,000 paid on signing the letter of intent

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

March 31, 2007

U.S. Funds

6. Property, Plant and Equipment

Details are as follows:

| March 31, 2007 | Cost | Accumulated Amortization | Net Book Value |
|------------------------|-----------|-----------------------------|-------------------|
| Furniture and fixtures | \$ 20,317 | \$ 4,362 | \$ 15,955 |
| Equipment | 204,167 | 7,769 | 196,398 |
| | 224,484 | 12,131 | 212,353 |

| December 31, 2006 | Cost | Accumulated Amortization | Net Book Value |
|------------------------|-----------|-----------------------------|-------------------|
| Furniture and fixtures | \$ 20,317 | \$ 3,481 | \$ 16,836 |

7. Notes Payable

Details are as follows:

| | March 31, 2007 (Unaudited) | December 31, 2007 |
|--|----------------------------------|----------------------|
| 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 \$400 (\$350 – 2005) per month blended interest and principal | 17,676 | 25,966 |
| Delbert Steiner, a director, promissory note payable, unsecured, bears interest at 8% per annum and repayable on demand | 106,260 | 106,260 |
| Barney Green Lee, a director, promissory note payable, unsecured, bears interest at 8% per annum and repayable on demand | 47,000 | 47,000 |
| | 190,936 | 199,226 |
| Current portion | 12,876 | 184,153 |
| | \$ 178,060 | \$ 15,073 |

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

March 31, 2007

U.S. Funds

8. Share Capital

- a) Authorized: Unlimited common shares without par value.
b) Issued or allotted and fully paid:

| | Number of Shares Issued | Shares Amount | Number of Warrants Issued (i) | Warrants Amount | Total Amount |
|---|-------------------------------|---------------------|-------------------------------------|--------------------|---------------------|
| Balance – December 31, 2006 | 20,764,303 | \$ 1,727,317 | 4,675,000 | \$ 378,592 | \$ 2,105,909 |
| Issuance of share for property | 50,000 | 10,091 | - | - | 10,091 |
| Issuance of share on private placement | 3,300,000 | 441,343 | 1,650,000 | 263,665 | 705,008 |
| Issuance of warrants on private placement fee | | | 210,000 | 28,529 | 28,529 |
| Share issuance costs | | (11,177) | | | 11,177 |
| Balance – March 31, 2007 (Unaudited) | 24,114,303 | 2,167,574 | 6,535,000 | 670,786 | 2,838,360 |

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

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

December 31, 2007

U.S. Funds

8. Share Capital - Continued

b) Issued or allotted and fully paid - Continued:

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 (fair value \$xx) 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.

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) 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, 2006 | | | 1,925,000 | \$ 342,721 |
| Granted – 5 March 2007 | C\$0.23 | March 1, 2012 | 1,500,000 | 249,449 |
| Balance – March 31, 2007 | | | 3,425,000 | 592,170 |
| Unvested – March 31, 2007 | | | (2,151,042) | 365,677 |
| Vested - March 31, 2007 | | | 1,273,958 | \$ 226,493 |

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 \$0.17 per option. The weighted average remaining contractual life of the options as of March 31, 2007 was 4.60 years.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

March 31, 2007

U.S. Funds

8. Share Capital - *Continued*

d) 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 |
| Issued - March 12, 2007 | C\$0.35 | March 12, 2008 | 1,650,000 |
| Issued - March 12, 2007 - Agent | C\$0.30 | March 12, 2008 | 210,000 |
| Balance – March 31, 2007 | | | 6,535,000 |

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

9. Related Party Transactions

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

- a) During the three months ended March 31, 2007, the Company incurred management fees of \$15,000 (Unaudited) (2006 - \$9,000) charged by a director. The balance of these fees is included in due to related parties.
- b) The balance of \$30,515 (December 31, 2006 - \$38,844) 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) During the three months ended March 31, 2007, the Company incurred \$Nil (2006 - \$7,705) 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) During the three months ended March 31, 2007, the Company incurred \$3,851 (2006 - \$7,665) 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.

Premium Exploration Inc.

Notes to the Consolidated Financial Statements

March 31, 2007

U.S. Funds

10. 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.
