

**PREMIUM EXPLORATION INC.**  
**Report to Shareholders and**  
**Management Discussion and Analysis**  
**Of the Financial Position and Results of Operations**  
**For the Quarter Ended March 31, 2007**

**May 30, 2007**

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**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 March 31, 2007. 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 March 31, 2007 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, Nayarit, and Jalisco, Mexico. Our principal business activities have been the exploration of two mineral properties known as the Montana Property and the Nuevo Galicia Property respectively located in the Stillwater Complex, the State of Montana, United States of America and the State of Nayarit, Mexico, respectively. The Company's Montana Property consists of 167 mining claims acquired through three separate acquisition agreements that were completed during the third and fourth quarters of 2004 and a staking program completed in February, 2007. The Company's primary property located in Mexico consists was acquired by staking and the completion of an exploration agreement with purchase option on July 7, 2006, amended November 30, 2006. On January 11, 2007 the company agreed to proceed with a formal agreement to acquire the San Pedro Analco property in Jalisco State Mexico. The property has been a past producer of silver with gold. Preliminary prospecting and reconnaissance indicates a potential for more resource and possible undiscovered zones on the property. All property transactions have been conducted on an arm's length basis between the Company and the vendors. The Company has other projects in due diligence review in Mexico but formal agreements have not been entered.

The Montana Property and the Nuevo Galicia Property are the primary exploration properties held by the Company – see *Mineral Exploration*.

## **SIGNIFICANT EVENTS AND TRANSACTIONS**

During the first quarter of 2007, the Company announced:

- January 17, 2007 appointment of new officers and directors
  - Vanessa Bachman, CFO
  - Nancy Reardon, VP Exploration
  - Lisa Maxwell, VP Corporate Development
  - Brent McNiven, Exploration Manager, Mexico
- February 22, 2007, announced the purchase of a turnkey diamond drill package for C\$150,000 and signed operator contract with experienced driller. The drill will be shipped to Mexico for work on the Nueva Galicia project.
- March 23, 2007, Premium announced an update on the progress in Mexico. The drill had been shipped to Mexico and was expected to arrive in Manzanillo in mid-April
- April 24, 2007, Premium retained the services of marketing firms in Toronto, San Francisco and Europe as follows:
  - The Richmond Club will receive a monthly fee of C\$1,450 and will be granted 130,000 stock options vesting within 30 days from the date of this press release at an exercise price of \$0.35 per share. The term of the options is three years from the date of this release. The term of the marketing contract with the Richmond Club is one year.
  - William McCarty Consultants (WMC) is a San Francisco based strategic planning and marketing services firm. WMC will receive a monthly fee of USD\$1,000 and will be granted 300,000 stock options vesting within 30 days from the date of this press release at an exercise price of \$0.40 per share. The term of the options is five years from the date of this release. The term of the contract with WMC is one year.
  - Mr. Blair Shilleto of FineLine Expertise (FLE) provides introductions to European institutions. FLE will be granted 200,000 stock options at an exercise price \$0.30 per share. The term of the options is five years from the date of this press release. The term of the contract with FLE is one year.
- 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 250,000 shares from treasury, make cash payments of \$1,475,000 and complete \$1,650,000 of exploration expenditures in stages over a 36-month term. The property will be subject to a 1% smelter return from commercial production.
- On March 5, 2007, the Company granted 1,500,000 stock options to directors, officers and consultants for 5 years, to March 5, 2012, at \$0.23 per share.
- 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 agent received a commission of C\$42,000 and 210,000 warrants. Each agent's warrant allows the agent to acquire one additional common share for one year at \$0.30 per share. A finder's fee of C\$30,000 was also paid.

## **MINERAL EXPLORATION**

### ***Montana Property***

The company advanced the Strategic Alliance with Beartooth Platinum entered on October 11, 2006 by paying the assay costs for the 2,300 soil samples Beartooth collected from Premium's property in February 2007.

### ***Nueva Galicia***

The Nueva Galicia Project is centered on a large, low sulfidation epithermal precious metal vein system, which is outlined by 17 historic workings over 10 km of strike across the Project. This structural corridor contains several mineralized, sub-parallel, sub-vertical vein systems, breccias, and low-angle vein structures locally. Stringer and disseminated mineralization have been identified peripheral to the veins.

Premium's first phase exploration program was focused on approximately 200 hectares of the property where significant results were obtained by the Mexican Geological Survey and a previous operator (see Press Release dated July 19, 2006). In the area of current focus alone, over 4,000 meters of mineralized structures are present in six sub-parallel and cross-cutting veins. The area of current exploration represents only a small part of the entire system - large areas with known mineralization have yet to be explored using modern methods - no drilling or geophysical surveys have ever been carried out at Nueva Galicia.

Sampling and mapping were carried out to develop drill targets for testing in Spring 2007, as well as mapping extensions of known vein structures and prospecting for additional mineralized zones. The program included re-sampling of a representative percentage of accessible historic workings, surface sampling, as well as structural and alteration mapping, which will be used to develop drill targets which will test the continuity of mineralization along strike and down-dip of known ore shoots.

Final results for 96 samples have been received to date, with results for 112 samples pending. The chip samples were collected from pits, shallow trenches and surface exposures along two parallel zones of mineralization. The table below list results for samples which returned gold values greater than 500 ppb (0.5 g/t) gold and/or greater than 100 ppm (100 g/t) silver.

<b>Zone</b>	<b>Sample Width (m)</b>	<b>Au (ppb)</b>	<b>Ag (ppm)</b>	<b>Au. Eq. (g/t)</b>
	2.00	1100	285.2	5.85
	0.50	2369	325.4	7.79
	1.50	1155	153.5	3.71
<b>Lluvia de Oro</b>	2.00	1260	214.3	4.83
	2.00	570	134.0	2.80
	2.30	1065	203.1	4.45
	2.00	1385	446.0	8.82
<b>Tajitos</b>	5.00	1405	141.4	3.76
	5.00	4731	59.3	5.72
	0.50	12530	1228.9	33.01
	0.40	585	36.9	1.20

<b>Zone</b>	<b>Sample Width (m)</b>	<b>Au (ppb)</b>	<b>Ag (ppm)</b>	<b>Au. Eq. (g/t)</b>
	0.80	1450	65.4	2.54
	0.62	757	403.7	7.49
<b>La Palmera</b>	2.30	1270	13.2	1.49
	1.65	3247	195.9	6.51
<b>La Cholita -San Mateo</b>	1.00	905	150.7	3.42
	1.00	515	140.5	2.86
<b>PN1</b>	2.50	2870	128.6	5.01
	2.30	1625	302.7	6.67
<b>West Zone</b>	8.00	1185	161.5	3.88
	0.70	1650	176.6	4.59
	0.90	1183	133.0	3.40

Premium's COO and Vice President - Exploration, Nancy Reardon, states, "We are pleased that the zones of stringer mineralization peripheral to the veins are returning significant values of gold and silver. We know there are high grade shoots within this vein system, now we have demonstrated that wider zones of mineralization exist locally as well."

On January 9, 2007, Rochester Resources announced that it had commenced milling operations at its Mina Real mine, located approximately 40 kilometers northeast of Nueva Galicia. Mill recovery rates are anticipated to average approximately 95% for gold and 90% for silver. Mining, milling and trucking costs at Mina Real are estimated at less than \$75/tonne.

The Nueva Galicia Project is located immediately south of Cream Mineral's Nuevo Milenio Project, where a NI 43-101 compliant inferred mineral resource of 13,120,000 tonnes containing 268,000 oz. gold and 30,340,000 oz. of silver have been identified so far.

Infrastructure and access to the Nueva Galicia project are excellent. The claims are located 29 kilometers southeast of the Nayarit State capital, Tepic, and four kilometers from the town of Compostela (pop. 15,000), where Premium has established a field office. Paved highways and electric power lines pass within four kilometers of the western boundary, and within one kilometer of the southern boundary of the property. An operating railway line crosses the northwest corner of the property. A gravel road provides access to the center of the property where many of the historic workings are located. Water is available year round on the property.

During the quarter ended March 31, 2007, the Company acquired an addition 1,910 hectares for a total of 17,950 hectares.

## **RESULTS OF OPERATIONS**

The loss for the quarter ended March 31, 2007 was \$ 490,872, which compares to a loss of \$94,266 for the comparable quarter of 2006. The increase in the loss for the current quarter is due to a number of factors including significant increases in wages, fees and benefits, shareholder relations, Stock-based compensation, foreign exchange gain and write off of mineral property costs. The current quarter loss includes wages, fees and benefits of \$48,802 (2006 - \$\$22,574), which includes \$15,000 (2006 - \$9,000)

in management fees to Delbert W. Steiner, the President of the Company. The amount also increased due to a full year of wages and benefits for our Montana office accountant and certain one-time fees related to potential additional exploration projects. Shareholder relations increased to \$39,169 (2005 - \$15,342) due to increased activity. Stock-based compensation was \$373,389 (2006 - \$nil) from the issuance of options.

The Company incurred resource property costs of \$268,191 (2006 - \$176,731) during the year, as a result of exploration work completed on its Montana and Mexican properties. The current year costs were mainly related to care and maintenance as the Company paid its claim and concession fees and the monthly payments on the Mexican property and surface access agreements,

## **SUMMARY OF QUARTERLY RESULTS**

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

Three Months Ended	Mar-07	Dec-06	Sep-06	Jun-06	Mar-06	Dec-05	Sep-05	Jun-05
Total Revenues	\$Nil	\$Nil	Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Loss from continuing operations	\$490,872	\$322,125	\$445,596	\$113,369	\$94,266	\$47,737	\$30,472	\$71,053
Loss for the period	\$498,872	\$322,125	\$445,596	\$113,369	\$94,266	\$47,085	\$30,472	\$71,053
Loss per share	\$(0.02)	\$(0.02)	\$(0.02)	\$(0.01)	\$(0.01)	\$(0.00)	\$(0.00)	\$(0.01)

The quarterly losses for the year ended December 31, 2006 reflect a higher level of exploration activity and a higher level of administrative activity than in fiscal 2005 as discussed above (see *Results of Operations*). Comparison of 2006 quarterly results with those of 2005 is must be considered accordingly. The quarterly losses before stock-based compensation for fiscal 2005 were relatively consistent. The loss in the first quarter of 2007 is consistent with prior quarters

## **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 \$239,780 as compared to a working capital of \$162,402 at December 31, 2006. The change during the quarter primarily reflects the closing of the private placement for IPO for net proceeds of \$675,184.

At March 31, 2007, the Company had cash on hand of \$376,346 compared to \$936,313 at December 31, 2006. Management believes the cash balance is adequate to fund ongoing expenses as required for its mineral property agreements and its general and administrative activities for the coming 12 months. .

## **CAPITAL RESOURCES AND COMMITMENTS**

The Company is required to expend \$200,000 on the Mexican concessions covered by the Nueva Galacia Option Agreement by July 7, 2007, in order to keep its option agreement in good standing. [what about the San pedro agreement and shouldn't this note state the amounts needed in the next 12 months to March 31, 2008 less amounts spent to March 2007 on qualifying expenses?]

The Company has an agreement, with Delbert W. Steiner, President and Director, which call for monthly payments of \$5,000 per month to 1 March 2007, renewable upon mutual consent. Renewal of this agreement is expected in the near term.

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. This contract may be cancelled upon the Company providing three months advance notice.

It will be necessary for the Company to arrange for additional financing following the completion of the coming 12 month-period 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 March 31, 2007 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 quarter of \$15,000 (2006 - \$9,000) paid or accrued to a director of the Company in his capacity as President. The Company incurred \$3,851 (2005 - \$7,665) in interest expense on a note payable to a director in the quarter.

### **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.
- 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
<b>Balance Sheet</b>						
Cumulative Translation Adjustment	\$	(1,536)	\$	1,536	\$	-
Accumulated Other Comprehensive Income	\$	-	\$	(1,536)	\$	(1,536)

### **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, GST receivable, accounts payable, 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 March 31, 2007 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 5).

### **OUTSTANDING SHARES**

As at March 31, 2007, the Company had 24,114,303 common shares issued and outstanding versus 20,764,303 common shares issued and outstanding at December 31, 2006. The increase over 2006 reflects the private placement completed in the quarter and shares issued for resource properties.

Issued and diluted shares outstanding as at the date hereof are 24,114,303 and 34,074,303 respectively.

### **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.

### **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.

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.

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management has evaluated the design of the Company's internal controls over financial reporting during the period covered by this Management Discussion and Analysis, and has determined that the internal controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

#### **DISCLOSURE CONTROLS AND PROCEDURES**

Management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures during the period covered by this Management Discussion and Analysis and has concluded that they provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported with appropriate timescales.

#### **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"*

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Delbert W. Steiner  
President