

PREMIUM EXPLORATION INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2007

MANAGEMENT COMMENT

These interim consolidated financial statements for the six months ended 30 June 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 June 30, 2007 (Unaudited)	As at December 31, 2006
Current		
Cash	\$ 278,524	\$ 439,290
Receivables	150,904	29,694
Other	73,498	35,798
	502,926	504,782
Resource Properties - Schedule (Note 5)	1,471,787	826,551
Property, Plant and Equipment (Note 6)	201,338	16,836
	\$ 2,176,051	\$ 1,348,169
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 105,111	\$ 119,383
Due to related parties (Note 9)	38,929	38,844
Notes payable (Note 7)	175,010	184,153
	319,050	342,380
Notes Payable (Note 7)	15,073	15,073
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	2,744,859	1,727,317
Share Purchase Warrants (Note 8)	615,184	378,592
Contributed Surplus (Note 8)	536,395	168,410
Accumulated Other Comprehensive Income (Loss) (Note 3c)	125,077	(1,536)
Deficit - (Statement 2)	(2,179,587)	(1,282,067)
	1,841,928	990,716
	\$ 2,176,051	\$ 1,348,169

ON BEHALF OF THE BOARD:

_____, Director

_____, Director

- See Accompanying Notes -

Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit

U.S. Funds

	Three Months Ended 30 June 2007		Six Months Ended	
	Restated – (Note 2) (Unaudited)	30 June 2006 (Unaudited)	30 June 2007 (Unaudited)	30 June 2006 (Unaudited)
Expenses				
Wages, fees and benefits	\$ 50,646	\$ 25,810	\$ 99,448	\$ 48,384
Stock-based compensation	181,302	9,189	302,587	30,368
Professional fees	50,542	14,540	58,767	26,658
Travel	36,974	31,079	66,261	60,690
Office rent	11,996	6,710	25,122	14,982
Office and general	25,100	5,790	33,253	9,328
Bank charges and interest	10,718	1,933	14,568	11,712
Shareholder relations	69,389	26,631	108,558	41,973
Transfer agent and filing fees	10,517	24,273	18,913	24,273
Amortization	1,716	590	10,208	1,174
Interest income	(2,737)	(3,649)	(10,494)	(4,941)
Foreign exchange (gain) loss	120,718	(29,527)	78,458	(35,787)
General property search	21,069	-	21,069	-
Net Loss and Comprehensive Loss for the Period	587,950	113,369	926,718	228,814
Deficit - Beginning of period	1,520,835	422,156	1,282,067	306,711
Deficit, End of Period	\$ 2,108,785	\$ 535,525	\$ 2,108,785	\$ 535,525
Loss per Share - Basic and Diluted	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ (0.01)
Weighted average number of shares outstanding	24,147,853	17,964,303	21,816,073	14,602,248

- See Accompanying Notes -

Interim Consolidated Statements of Cash Flows

U.S. Funds

	Three Months Ended		Six Months Ended	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Operating Activities				
Loss for the period	\$ (587,950)	\$ (113,369)	\$ (826,718)	\$ (228,814)
Items not affecting cash				
Amortization	9,620	242	18,112	1,174
Stock-based compensation	181,302	9,189	302,587	30,368
Changes in non-cash working capital items				
Accounts receivable	(113,380)	3599	(121,210)	6596
Prepaid expenses	47,213	(19,880)	(37,700)	(21,220)
Accounts payable and accrued liabilities	18,885	5,822	(14,272)	(30,845)
Due to related parties	8,414	337	85	16,227
	(435,896)	(114,060)	(679,116)	(226,514)
Investing Activities				
Property, plant and equipment acquired	-	(1,160)	(204,167)	(13,947)
Resource property expenditures	(453,045)	(73,806)	(645,236)	(133,613)
	(453,045)	(74,966)	(849,403)	(147,560)
Financing Activities				
Shares issued and allotted for cash	593,825	-	1,045,259	1,298,927
Share issuance costs	(29,842)	-	(41,019)	(233,256)
Share purchase warrants issued for cash	25,296	-	244,490	-
Notes payable	(853)	(457)	(9,143)	(38,135)
	588,426	(457)	1,239,587	1,027,536
Effect of exchange rates on cash	202,693	-	128,166	-
Net Increase (Decrease) in Cash	(97,822)	(189,483)	(160,766)	653,462
Cash position – Beginning of period	376,346	855,029	439,290	12,084
Cash Position – End of period	278,524	665,546	278,524	665,546

- See Accompanying Notes -

Interim Consolidated Schedule of Resource Property Costs

U.S. Funds

For the Six Months Ended June 30

	Acquisition (Unaudited)	Deferred Exploration (Unaudited)	2007 (Unaudited)	2006 (Unaudited)
Montana Properties, U.S.A.				
Assaying	\$ -	\$ 59,323	\$ 59,323	\$ -
Drilling	-	-	-	2,000
Claim fees	-	-	-	9,519
Geological	-	-	-	7,200
Reports	-	-	-	2,537
Field transportation	-	3,709	3,709	-
General	-	4,760	4,760	-
Unrealized translation adjustment	20,548	34,588	55,136	-
	20,548	102,380	122,928	21,256
Caliche Hill Property, Sonora, Mexico				
Staking, filing and concession fees	-	1,978	1,978	5,267
General	-	96,450	96,450	9,928
Geological	-	-	-	22,023
Geochemical	-	-	-	5,395
Surface access	-	-	11,033	9,300
Project management	-	11,033	-	24,217
Assaying	-	-	-	2,500
Field transportation	-	-	-	6,551
Survey	-	-	-	8,050
Unrealized translation adjustment	-	15,095	15,095	-
	-	124,556	124,556	31,133
Nueva Galicia Property, Nayarit, Mexico				
Acquisition	90,443	-	90,443	-
Staking, filing and concession fees	-	17,779	17,779	11,421
General	-	61,969	61,969	1,891
Geological	-	36,813	36,813	2,068
Geochemical	-	3,068	3,068	-
Field management	-	5,134	5,134	-
Field transportation	-	19,316	19,316	240
Unrealized translation adjustment	3,997	10,591	14,588	-
	94,440	154,864	249,304	15,620
Guadalupe Property, Jalisco, Mexico				
Unrealized translation adjustment	467	100	567	-
	467	100	567	-
Dos Amigos Property, Nayarit, Mexico				
Field Transportation	-	1,706	1,706	-
General	-	20,914	20,914	-
Unrealized translation adjustment	-	105	105	-
	-	22,725	22,725	-
San Pedro de Analco Property, Jalisco, Mexico				
Field transportation	-	58,225	58,225	-
General	-	66,316	66,316	-
Unrealized translation adjustment	467	148	615	-
	467	124,689	125,156	-
Total Costs for the Period	115,922	529,314	645,236	44,253
Balance - Beginning of period	265,897	560,654	826,551	309,575
Balance – End of Period	\$ 381,819	1,089,968	\$ 1,471,787	\$ 353,828

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended June 30, 2007 and 2006

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. Restatement

In the first quarter of fiscal 2007 the Company's calculation of stock-based compensation was incorrect. The correction of this error is summarized as follows

	March 31, 2007		March 31, 2007
	As Previously Reported	Restatement	As Restated
Balance Sheet			
Contributed Surplus	\$ 536,395	\$ (252,104)	\$ 284,291
Statements of Loss, Comprehensive Loss and Deficit			
Stock-based Compensation	\$ 373,389	\$ (252,104)	\$ 121,285
Net Loss for the Period	\$ (490,872)	\$ 252,104	\$ (238,768)
Deficit - Beginning of period	1,282,067	-	1,282,067
Deficit, End of Period	\$ 1,772,939	\$ (252,104)	\$ 1,520,835
Loss per share	\$ (0.02)	\$ 0.01	(0.01)

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.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended June 30, 2007 and 2006

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:

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

d) Accumulated Other Comprehensive Income (Loss)

	June 30, 2007
Balance – December 31, 2006 (as restated)	\$ (1,536)
Unrealized adjustment on translation to reporting currency	126,613
Balance – June 30, 2007	\$ 125,209

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 June 30, 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.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended June 30, 2007 and 2006

4. Significant Accounting Policies - *Continued*

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. and 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) 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.

d) Comparative Figures

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

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended June 30, 2007 and 2006

5. Resource Properties

a) Details of cumulative expenditures are as follows:

	Acquisition	Exploration	June 30, 2007 (Unaudited)
Mineral Properties			
Montana Properties, U.S.A. (Notes 5b and 5c)	\$ 234,990	391,264	\$ 626,254
Cucurpe Property, Sonora, Mexico (Note 5d)	-	282,095	282,095
Nueva Galicia Property, Nayarit, Mexico (Note 5e)	136,159	265,397	401,556
Guadalupe Property, Jalisco, Mexico (Note 5f)	5,335	1,146	6,481
Dos Amigos Property, Nayarit, Mexico (Note 5g)	-	23,823	23,823
San Pedro de Analco Property, Jalisco, Mexico (Note 5h)	5,335	126,243	131,578
	<u>\$ 381,819</u>	<u>\$ 1,089,968</u>	<u>\$ 1,471,787</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.

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.

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended June 30, 2007 and 2006

5. Resource Properties – *Continued*

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.

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	(iii)	50,000	(iii)	150,000	complete
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
- (iii) Issued and paid subsequent to the period end

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.

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended June 30, 2007 and 2006

5. Resource Properties - *Continued*

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.

To date the Company has not entered into a definitive agreement on this property, but continues to support the property through expenditures.

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	complete
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.

The Company is still negotiating a final agreement on this property

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended June 30, 2007 and 2006

5. Resource Properties – Continued

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	(iii)	50,000	(iii)	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
- (ii) Paid and includes the \$5,000 paid on signing the letter of intent
- (iii) Paid and issued subsequent to the period end [did they complete the \$50k of work?]

6. Property, Plant and Equipment

Details are as follows:

June 30, 2007	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 45,145	\$ 5,370	\$ 39,775
Equipment	161,529	17,776	143,753
	206,674	23,146	183,528
December 31, 2006	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 20,317	\$ 3,481	\$ 16,836

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended June 30, 2007 and 2006

7. Notes Payable

Details are as follows:

	June 30, 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 per month blended interest and principal	16,823	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
	190,083	199,226
Current portion	175,010	184,153
	\$ 15,073	\$ 15,073

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 shares for property	50,000	10,091	-	-	10,091
Issuance of shares on private placement	3,300,000	534,067	1,650,000	170,038	704,105
Issuance of agents warrants	-	-	210,000	25,163	25,163
Issuance of shares on private placement	1,546,750	490,532	773,375	72,896	563,428
Issuance of shares on exercise of warrants	66,800	15,973	-	-	15,973
Fair value warrant transfer on exercise		7,898	-	(7,898)	-
Share issuance costs	-	(41,019)	-	(23,607)	(41,019)
Balance – June 30, 2007 (Unaudited)	25,727,853	\$ 2,744,859	7,308,375	\$ 615,184	\$ 3,360,043

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

8. Share Capital - Continued

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended June 30, 2007 and 2006

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 \$27,278) 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 – March 5, 2007	C\$0.23	March 1, 2012	1,500,000	222,438
Granted – April 24, 2007	C\$0.35	April 24, 2012	200,000	111,835
Granted – April 24, 2007	C\$0.40	April 24, 2012	130,000	19,882
Granted – April 24, 2007	C\$0.30	April 24, 2012	300,000	54,108
Expired			(437,500)	-
Balance – June 30, 2007			3,617,500	750,984
Unvested – June, 30, 2007			(1,637,500)	202,647
Vested - June 30, 2007			1,980,000	\$ 548,397

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 June 30, 2007 was 4.40 years.

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

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For the Periods Ended June 30, 2007 and 2006

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	483,200
Issued - December 14, 2006	C\$0.25	November 9, 2007	1,325,000
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
Issued - June 3, 2007	C\$.50	June 15, 2008	773,375
Balance – June 30, 2007			7,241,575

(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 six months ended June 30, 2007, the Company incurred management fees of \$30,000 (Unaudited) (2006 - \$26,000) charged by a director. The balance of these fees is included in due to related parties.
- c) During the six months ended June 30, 2007, the Company incurred \$Nil (2006 - \$10,135) 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 six months ended June 30, 2007, the Company incurred \$6,987 (2006 - \$9,179) 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.

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 managements' 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.

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

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11. Subsequent Event

Subsequent to June 30, 2007 the Company announced the completion of a non-brokered private placement of 3,306,250 units of the Company at C\$0.40 for total gross proceeds of C\$1,322,500. Each unit consists of one common share of the Company and one-half common share purchases warrant. Each whole common share warrant entitles the holder to purchase one share of the Company at a price of C\$0.50 per share before August 23, 2008. In addition the company paid finders fees of C\$32,750 and issued 201,250 shares in connection with the offering.
