

PREMIUM EXPLORATION INC.
Report to Shareholders and
Management Discussion and Analysis
Of the Financial Position and Results of Operations
For the Quarter Ended June 30, 2007

August 29, 2007

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 June 30, 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 June 30, 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. 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 Nueva 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 of 7 mining concessions and the Company is negotiating title for 3 additional concessions. The Company has other projects in due diligence review in Mexico but formal agreements have not been entered. On January, 19 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 primarily 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 Montana Property and the Nueva Galicia Property are the primary exploration properties held by the Company – see *Mineral Exploration*.

SIGNIFICANT EVENTS AND TRANSACTIONS

During the quarter ended June 30, 2007, the Company announced

- The commencement of the Phase I Drill Program on the Nueva Galicia Property in Nayarit, Mexico.
- June 26, 2007 the Company announced the completion of a private placement
 - 1,546,750 units (each, a “Unit”) of the Company at a price of \$0.40 per Unit for aggregate proceeds of \$618,700.
 - Each Unit consisted of one common share (a “Share”) of the Company and one-half of one common share purchase warrant (each whole common share purchase warrant, a “Warrant”) of the Company. Each Warrant entitles the holder thereof to purchase one Share of the Company at a price of \$0.50 per Share at any time and from time to time until 5 p.m. (Vancouver time) on June 15, 2008. The Company paid finder’s fees of US\$20,000 in cash in connection with the Offering.
- The Company signed a letter of intent to acquire 100% of the Rosamorada property, located in Nayarit State, west central Mexico, four hours west of Guadalajara, Mexico’s second largest city. The Company believes that the Rosamorada property demonstrates good potential for a bulk tonnage gold-silver target with excellent infrastructure and geometry. A preliminary field visit by Premium’s exploration team revealed evidence of quartz veining and stockwork over an area at least 1000m by 300m.
- A Joint Venture Agreement on its Chrome Mountain Platinum Group Metals project with Beartooth Platinum Corporation (“Beartooth”) (TSX-V:BTP). Premium’s Chrome Mountain PGM Project (“Project”) Is located in the Stillwater Complex in the State of Montana, United States of America. Under the terms and conditions of the Joint Venture Agreement Premium will contribute its Chrome Mountain Project exclusive of the Pine Claim Gold Shear Zone to the Joint Venture, which Premium will retain and explore independently of the Joint Venture.
- For participating in the Joint Venture Premium will receive the following:
 - 1) Reimbursement of 50% of its previously incurred exploration expenditures on the Chrome Mountain Project.
 - 2) Upon Beartooth completing three million dollars (US\$3,000,000) in exploration expenditures on the Project to vest its 50% interest in the project (“Initial BTP Vesting Expenditures”), Premium, can at its option maintain its 50% interest in the project by paying for its pro-rata share of exploration expenditures above the Initial BTP Vesting Expenditures If Premium declines the Participatory Option, Beartooth can earn an additional 30% by spending an additional US\$2,000,000. Upon Beartooth’s completion of five million dollars (US\$5,000,000) of cumulative exploration expenditures on the Project by January 1, 2011, Premium will retain a twenty percent (20%) carried interest in the Project and Beartooth will own an eighty percent (80%) participatory interest in the Project.
 - 3) A one percent (1%) Net Smelter Royalty on Premium’s and Beartooth’s properties.
- April 24, 2007, Premium retains the services of marketing firms in Toronto, San Francisco and Europe
 - 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.

MINERAL EXPLORATION

Montana Property

As noted above the Company signed a strategic alliance forming a joint venture with Beartooth Platinum on its in the Stillwater Complex in the State of Montana.

Nueva Galicia

The main focus for the Company during the 3 month ended June 30 2007 has been the Nueva Galicia property with expenditures during the period of approximately \$250,000.

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.

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 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.

RESULTS OF OPERATIONS

The loss for the quarter ended June 30, 2007 was \$587,950, which compares to a loss of \$113,369 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 loss and professional fees and general property search. . The current quarter loss includes wages, fees and benefits of \$50,646 (2006 - \$25,810), which includes \$30,000 (2006 - \$15,000) 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 \$69,389 (2006 - \$25,631) due to increased activity. Stock-based compensation was \$181,302 (2006 - \$9,189) from the issuance and vesting of stock options. Foreign exchange loss was \$120,718 (2006 – gain \$29,527) as a result of the strength in the Canadian dollar through the quarter. Professional fees for the quarter were \$50,542 (2006 – 14,540) the increase is understood through the continuing growth in activity of the company and finally the Company reported general exploration costs of \$21,069 (2006 – Nil) due to ongoing search for new properties.

The Company incurred resource property costs of \$453,045 (2006 - \$73,806) during the quarter ended June 30, 2007, as a result of exploration work completed on its Mexican properties. The current period work was focused on the Nueva Galicia property were the Company continues to meet with favorable results. The current year costs were mainly related to mapping, sampling, drilling and infrastructure at the site.

SUMMARY OF QUARTERLY RESULTS

Financial Data for the Last Eight Quarters

Three Months Ended	Jun-07	Mar-07 Restated	Dec-06	Sep-06	Jun-06	Mar-06	Dec-05	Sep-05
Total Revenues	\$Nil	\$Nil	\$Nil	Nil	\$Nil	\$Nil	\$Nil	\$Nil
Loss from continuing operations	587,950	\$238,878	\$322,125	\$445,596	\$113,369	\$94,266	\$47,737	\$30,472
Loss for the period	587,950	\$238,768	\$322,125	\$445,596	\$113,369	\$94,266	\$47,085	\$30,472
Loss per share	(0.02)	\$(0.01)	\$(0.02)	\$(0.02)	\$(0.01)	\$(0.01)	\$(0.00)	\$(0.00)

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:

Balance Sheet	March 31, 2007		March 31, 2007
	As Previously Reported	Restatement	
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)

The quarterly losses for the three month period ended June 30, 2007 reflect a higher level of exploration activity and a higher level of administrative activity than in same period of fiscal 2006 as discussed above (see *Results of Operations*). Comparison of 2007 quarterly results with those of 2006 must be considered accordingly.

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 \$183,876 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 a net inflow from share capital financing activities of \$587,573.

At June 30, 2007, the Company had cash on hand of \$278,524 compared to \$936,313 at December 31, 2006. Management believes the cash balance, along with the recently announced private placement (for gross proceeds of Cnd\$1,322,500 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 has to expend a further \$35,000 on the Mexican concessions covered by the Nueva Galacia Option Agreement by January 07, 2008.

The Company has to expend a further \$124,000 on the Mexican concessions covered by the Nueva Galacia Option Agreement by January 11, 2008.

The Company has an agreement, with Delbert W. Steiner, President and Director, which call for monthly payments of \$5,000 each with a term of five years 1 March 2011, renewable upon mutual consent.

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 June 30, 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 \$30,000 (2006 - \$26,000) paid or accrued to a director of the Company in his capacity as President. The Company incurred \$6,987 (2006 - \$9,179) in interest expense on a note payable to a director in the quarter. 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.

CHANGES IN ACCOUNTING POLICIES

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

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.

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.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, 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 June 30, 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 3a).

OUTSTANDING SHARES

As at June 30, 2007, the Company had 25,727,853 common shares issued and outstanding versus 12,914,303 common shares issued and outstanding at December 31, 2006. The increase over 2006 arises from the private placements that have closed during the six month period.

Issued and outstanding shares outstanding as at the date hereof are 29,351,053.

INVESTOR RELATIONS ACTIVITIES

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

MANAGEMENT

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

SUBSEQUENT EVENTS

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.

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 failed in the first quarter, resulting in the required restatement of stock-based compensation. Management has reviewed this situation and is implementing extra process review control systems to further provide assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management has concluded that these further 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 determined that the disclosure controls and procedures failed in the first quarter, resulting in the required restatement of stock-based compensation. Management has reviewed this situation and is implementing extra process control review systems to 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"

Delbert W. Steiner
President