

PREMIUM EXPLORATION INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
30 September 2007

MANAGEMENT COMMENT

These interim consolidated financial statements for the nine months ended 30 September 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 September 30, 2007 (Unaudited)	As at December 31, 2006
Current		
Cash	\$ 818,882	\$ 439,290
Receivables	218,764	29,694
Other	73,735	35,798
	<u>1,111,381</u>	<u>504,782</u>
Resource Properties - Schedule (Note 5)	1,764,809	826,551
Property, Plant and Equipment (Note 6)	207,923	16,836
	<u>\$ 3,084,113</u>	<u>\$ 1,348,169</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 78,162	\$ 119,383
Due to related parties (Note 9)	9,555	38,844
Notes payable (Note 7)	186,408	184,153
	<u>274,125</u>	<u>342,380</u>
Notes Payable (Note 7)	2,799	15,073
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	3,809,881	1,727,317
Share Purchase Warrants (Note 8)	732,632	378,592
Contributed Surplus (Note 8)	547,419	168,410
Accumulated Other Comprehensive Income (Loss) (Note 3c)	375,502	(1,536)
Deficit - (Statement 2)	(2,658,245)	(1,282,067)
	<u>2,807,189</u>	<u>990,716</u>
	<u>\$ 3,084,113</u>	<u>\$ 1,348,169</u>

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		Nine Months Ended	
	30 September 2007 (Unaudited)	30 September 2006 (Unaudited)	30 September 2007 (Unaudited)	30 September 2006 (Unaudited)
Expenses				
Management Fees	\$ 48,798	\$ 33,319	\$ 148,246	\$ 81,703
Stock-based compensation	82,392	9,111	384,979	39,479
Professional fees	91,242	33,929	150,009	60,587
Travel	60,136	9,756	126,397	70,446
Office rent	25,214	11,339	50,336	26,321
Office and general	23,379	4,166	56,632	13,494
Bank charges and interest	(4,027)	(884)	47	5,887
Shareholder relations	74,708	9,603	183,266	51,576
Transfer agent and filing fees	13,367	5,270	32,280	29,543
Amortization	11,781	1,223	21,989	2,397
Write-off resource property cost	6,033	321,798	6,033	321,798
Interest income		(2,668)		(7,609)
Foreign exchange (gain) loss	(53,221)	6,966	25,237	(28,821)
General property search	169,658	-	190,727	-
Net Loss and Comprehensive Loss for the Period	549,460	445,596	1,376,178	674,410
Deficit - Beginning of period	2,108,785	535,525	1,282,067	306,711
Deficit, End of Period	\$ 2,658,245	981,121	2,658,245	981,121
Loss per Share - Basic and Diluted	\$ (0.02)	\$ (0.02)	\$ (0.05)	\$ (0.04)
Weighted average number of shares outstanding	26,102,093	17,964,303	23,379,089	15,875,125

- See Accompanying Notes -

Interim Consolidated Statements of Cash Flows

U.S. Funds

	Three Months Ended		Nine Months Ended	
	30	30	30	30
	September	September	September	September
	2007	2006	2007	2006
Operating Activities				
Loss for the period	\$ (549,460)	\$ (445,596)	\$ (1,376,178)	\$ (674,410)
Items not affecting cash				
Amortization	11,781	1,223	21,989	2,397
Write-off resource property costs	5,380	321,798	5,380	321,798
Stock-based compensation	82,392	9,111	384,979	39,479
	(449,907)	(113,464)	(963,830)	(310,736)
Net Change in non-cash working capital	(124,252)	7,552	(297,349)	(26,086)
	(574,159)	(110,308)	(1,261,179)	(336,822)
Investing Activities				
Property, plant and equipment acquired	(20,427)	(2,528)	(224,594)	(16,475)
Resource property expenditures	(293,022)	(175,495)	(938,258)	(309,108)
	(313,449)	(178,023)	(1,162,852)	(325,583)
Financing Activities				
Shares issued and allotted for cash	983,341	-	2,069,373	931,696
Share purchase warrants issued for cash	124,274	-	367,231	(39,152)
Notes payable	(876)	(1,017)	(10,019)	1,026,519
	1,106,739	(1,017)	2,426,585	1,919,063
Effect of exchange rates on cash	321,227	-	377,038	-
Net Increase (Decrease) in Cash	540,358	(289,348)	379,592	364,114
Cash position – Beginning of period	278,524	665,546	439,290	12,084
Cash Position – End of period	818,882	376,198	818,882	376,198

- See Accompanying Notes -

Interim Consolidated Schedule of Resource Property Costs

U.S. Funds

For the Nine Months Ended September 30

	Acquisition (Unaudited)	Deferred Exploration (Unaudited)	2007 (Unaudited)	2006 (Unaudited)
Montana Properties, U.S.A.	\$	\$	\$	\$
Drilling	-	-	-	2,000
Claim fees	-	-	-	6,750
Geological	-	1,000	1,000	3,417
Reports	-	-	-	845
Field transportation	-	3,912	3,912	-
General	-	4,760	4,760	-
Recovery of expenditures	-	(125,778)	(125,778)	-
Unrealized translation adjustment	36,746	44,765	81,511	-
	36,746	(71,341)	(34,595)	13,012
Clearwater Property, U.S.A.				
Acquisition	81,140	-	81,140	-
Unrealized translation adjustment	4,084	-	4,084	-
	85,224	--	85,224	-
Total Period costs U.S.A. Properties	121,970	(71,341)	50,629	13,012
Caliche Hill Property, Sonora, Mexico				
Staking, filing and concession fees	-	5,258	5,258	10,220
General	-	99,821	99,821	31,891
Geological	-	11,796	11,796	27,710
Geochemical	-	3,303	3,303	19,437
Surface access	-	-	-	3,481
Project management	-	-	-	83,681
Assaying	-	747	747	77
Field transportation	-	-	-	18,085
Survey	-	-	-	8,399
Unrealized translation adjustment	-	26,999	26,999	-
	-	147,924	147,924	202,981
Nueva Galicia Property, Nayarit, Mexico				
Acquisition	136,621	-	136,626	30,000
Drilling	-	63,541	63,541	-
Staking, filing and concession fees	-	26,968	26,968	1,421
General	-	87,941	87,941	3,613
Geological	-	130,914	130,914	9,329
Geochemical	-	11,415	11,415	-
Project management	-	10,488	10,488	-
Surface access	-	7,870	7,870	-
Field transportation	-	21,178	21,178	240
Survey	-	422	422	382
Unrealized translation adjustment	7,149	18,941	18,941	-
	143,770	379,678	523,488	44,985
Guadalupe Property, Jalisco, Mexico				
Write off of mineral property	(5,702)	(1,225)	(6,927)	-
Unrealized translation adjustment	834	179	(1,013)	-
	(4,868)	(1,046)	(5,914)	-

Interim Consolidated Schedule of Resource Property Costs

U.S. Funds

For the Nine Months Ended September 30

	Acquisition (Unaudited)	Deferred Exploration (Unaudited)	2007 (Unaudited)	2006 (Unaudited)
Dos Amigos Property, Nayarit, Mexico				
Field Transportation	-	1,824	1,824	-
General	-	22,361	22,361	-
Geological	-	2,919	2,919	-
Staking, filing and concession fees	-	2,307	2,307	-
Administration	-	441	441	-
Unrealized translation adjustment	-	187	187	-
	-	30,039	30,039	-
San Pedro de Analco Property, Jalisco, Mexico				
Staking, filing and concession fees	-	501	501	-
Field transportation	-	62,250	62,250	-
Geological	-	2,919	2,919	-
General	-	70,886	70,886	-
Unrealized translation adjustment	834	267	1,101	-
	834	136,823	137,657	-
Rosamorada				
Acquisition	48,927	-	48,927	-
Field transport	-	154	154	-
Staking, filing and concession fees	-	95	95	-
General	-	629	629	-
Geological	-	4,670	4,670	-
	48,927	5,548	54,475	-
Total Period costs Mexican Properties	188,663	698,966	887,629	247,966
Total Costs for the Period	310,633	627,625	938,258	260,978
Balance - Beginning of period	265,897	560,654	826,551	92,850
Balance – End of Period	\$ 576,530	\$ 1,188,279	\$ 1,764,809	\$ 353,828

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended September 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 September 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)

	30 September 2007
Balance – December 31, 2006 (as restated)	\$ (1,536)
Unrealized adjustment on translation to reporting currency	378,574
Balance – September 30, 2007	\$ 377,038

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 September 30, 2007 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2007. 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 September 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 September 30, 2007 and 2006

5. Resource Properties

a) Details of cumulative expenditures are as follows:

	Acquisition	Exploration	September 30, 2007 (Unaudited)
Mineral Properties			
Montana Properties, U.S.A. (Notes 5b and 5c)	\$ 251,188	217,543	\$ 468,731
Clearwater Property, USA (Note 5d)	85,224	-	85,224
Cucurpe Property, Sonora, Mexico (Note 5e)	-	305,463	305,463
Nueva Galicia Property, Nayarit, Mexico (Note 5f)	185,489	490,211	675,700
Guadalupe Property, Jalisco, Mexico (Note 5g)	-	-	-
Dos Amigos Property, Nayarit, Mexico (Note 5h)	-	31,137	31,137
San Pedro de Analco Property, Jalisco, Mexico (Note 5i)	5,702	138,377	144,079
Rosamorada Property, XXXXXXXX, Mexico (Note 5j)	-	54,475	54,475
	<u>\$ 527,603</u>	<u>1,237,206</u>	<u>1,764,809</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 5e)	-	157,539	157,539
Nueva Galicia Property, Nayarit, Mexico (Note 5f)	41,719	110,533	152,252
Guadalupe Property, Jalisco, Mexico (Note 5g)	4,868	1,046	5,914
Dos Amigos Property, Nayarit, Mexico (Note 5h)	-	1,098	1,098
San Pedro de Analco Property, Jalisco, Mexico (Note 5i)	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. These claims constitute the Chrome Mountain project. 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.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended September 30, 2007 and 2006

5. Resource Properties – *Continued*

c) Joint Venture 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.

By an agreement date June 1, 2007 The Company signed a definitive joint venture agreement, with Beartooth Platinum Corp, (“Beartooth”) on the Chrome Mountain project for which the company will receive the following:

- Reimbursement of 50% of its previously incurred exploration expenditures (\$125,778) on the Chrome Mountain project.
- A 1% net smelter royalty on both the Company’s and Beartooth’s properties
- Beartooth must complete \$3,000,000 in exploration expenditures to vest its 50% interest, at which time the Company may, at its option, maintain a 50% interest in the project by paying its pro rata share of exploration expenditures. Should the Company decline, Beartooth may earn an additional 30% interest by spending an additional \$2,000,000.
- Upon completion of the required \$5,000,000 of cumulative exploration expenditures by January 1, 2011 Premium will maintain a 20% interest.

d) Clearwater Property, Idaho, U.S.A.

By a letter of intent dated September 1, 2007, the Company entered into an agreement to acquire the South Orogrande shear zone located in the state of Idaho, from Clearwater Mining Company (“Clearwater”) Over the past 20 years, there has been extensive historical exploration work conducted on the South Orogrande shear zone that has been completed by several well-known mining companies including Bema Gold Corp., Cyprus Amax Minerals and Kinross Gold Corp. Premium has reviewed a technical report meeting the criteria for National Instrument 43-101 on the property prepared by Micon International Ltd. dated Sept. 10, 2004.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended September 30, 2007 and 2006

5. Resource Properties – *Continued*

Under the terms and conditions of the of the letter of intent with Clearwater Mining Corporation, Premium will acquire a 100% interest in the South Orogrande shear zone, subject to the following:

- Assumption of an underlying 1.0-per-cent net smelter return royalty on the Friday-Petsite property payable jointly to previous operators of the property that is capped at \$1-million.
- Assumption of an underlying 1.0-per-cent net smelter return royalty on the Dixie property payable jointly to previous operators of the property that is capped at \$1-million.
- Assumption of all other obligations of CMC under various agreements with third party property vendors for the South Orogrande shear zone.
- Assumption of the yearly US BLM claim maintenance fees on the South Orogrande shear zone.
- In the event that PEM should vend or transfer all or part of the South Orogrande shear zone to a third party within one year, PEM shall pay 25 per cent of all cash- and stock-based consideration that it receives in turn for making the transfer to the third party. In the event that PEM spends \$500,000 on developing the property and more than one year passes before PEM transfers all or part of the South Orogrande shear zone to a third party, then PEM shall pay to CMC \$200,000 and grant a 15-per-cent net profits interest in the South Orogrande shear zone to CMC.

e) 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 Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended September 30, 2007 and 2006

5. Resource Properties – *Continued*

f) 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

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.

g) 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.

The Company has elected not to pursue this venture and accordingly the property has written property expenditures of \$5,380 during the current period.

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended September 30, 2007 and 2006

h) Dos Amigos Property, Nayarit, Mexico

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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. On August 14, 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:

		Cash Payments		Complete Exploration Expenditures
On signing definitive agreement	\$	25,000	(i)\$	-
August 15, 2008		125,000		50,000
August 15, 2009		250,000		250,000
August 15 2010		600,000		700,000
Total	\$	1,000,000	\$	1,000,000

(i) complete

On entering commercial production the vendors will receive 1.5% net smelter return or \$1,500,000.

i) 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
(iii) Paid

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended September 30, 2007 and 2006

5. Resource Properties - *Continued*

j) Rosamorada Property, Nayarit, Mexico

On August 14, 2007 the Company paid \$10,000 and entered into a definitive option agreement to exploration rights on two concessions, totaling 300 hectares, in the municipality of Rosamorada in the State of Nayarit, Mexico. The Company must complete the following in order to maintain the option in good standing:

	Cash Payments		Complete Exploration Expenditures
On the date of execution	50,000	(i)\$	-
August 15, 2008	100,000		100,000
August 15, 2009	250,000		200,000
August 15, 2010	600,000		500,000
Total	\$ 1,000,000	\$	800,000

(i) Paid

On entering commercial production the vendors will receive 1.5% net smelter return or \$1,500,000.

6. Property, Plant and Equipment

Details are as follows:

September 30, 2007	Cost	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 33,478	\$ 6,349	\$ 27,219
Equipment	211,433	30,639	180,794
	244,911	36,988	207,923
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 September 30, 2007 and 2006

7. Notes Payable

Details are as follows:

	September 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	15,947	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
	189,207	199,226
Current portion	186,408	184,153
	\$ 2,799	\$ 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	8,354,250	2,220,228	4,058,500	368,273	2,588,501
Issuance of agents warrants	-	-	210,000	25,156	25,156
Issuance of shares exercise of options	37,500	7,178	-	-	7,178
Issuance of shares on exercise of warrants	109,900	28,067	-	-	28,067
Fair value transfer on exercise of options		5,970	-	-	5,970
Fair value transfer on exercise of warrants		13,191	-	(13,191)	-
Share issuance costs	-	(202,161)	-	(26,198)	(228,359)
Balance – September 30, 2007 (Unaudited)	29,315,953	\$ 3,809,881	7,308,375	\$ 732,632	\$ 4,542,513

Premium Exploration Inc.

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For the Periods Ended September 30, 2007 and 2006

- 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*

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.

On June 15 the Company issued 1,546,750 units of the Company at C\$0.40 for total gross proceeds of C\$618,750, in a non-brokered private placement. Each unit consisted of one common share of the Company and one-half common share purchase 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 June 15, 2008.

On July 22 the Company issued 3,306,250 units of the Company at C\$0.40 for total gross proceeds of C\$1,322,500, in a non brokered private placement. Each unit consisted of one common share of the Company and one-half common share purchase 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.

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:

	2007	Fair Value
Balance - beginning of year	1,925,000	342,721
Granted	2,130,000	356,890
Exercised	(37,500)	(5,970)
Expired	437,500	
Balance – end of year	1,518,125	693,647

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Periods Ended September 30, 2007 and 2006

8. Share Capital - Continued

Details of stock options outstanding as at 3 September are as follows:

	2007	2006		Exercise Price	Expiry Date
Directors and officers	600,000	900,000	Cdn\$	\$ 0.30	1 March 2011
Directors and officers	600,000	600,000	Cdn\$	\$ 0.20	15 November 2011
Consultants	250,000	425,000	Cdn\$	\$ 0.20	5 March 2012
Directors and consultants	1,500,000	-	Cdn\$	\$ 0.23	5 March 2012
Consultants	200,000	-	Cdn\$	\$ 0.35	24 April 2012
Consultants	130,000	-	Cdn\$	\$ 0.40	24 April 2012
Consultants	300,000	-	Cdn\$	\$ 0.30	24 April 2012
	3,580,000	1,925,000			

The outstanding options have a weighted-average exercise price of Cdn\$0.27 and the weighted-average remaining life of the options is 4.92 years. As at September 30 2007, a total of 2,717,500(2006 – 450,000) of these outstanding options had vested.

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.

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 – September 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.

e) Stock-based compensation

For the periods ended September 30, the Company issued stock options to its directors, officers, employees, and consultants and recognized stock-based compensation as follows:

	2007	2006
Total options granted	3,630,000	1,925,000
Average exercise price (in Cdn\$)	.27	.25
Estimated fair value of compensation	256,891	342,721
Estimated fair value per option	.19	0.2

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

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For the Periods Ended September 30, 2007 and 2006

8. Share Capital – *Continued*

e) Stock-based compensation – *Continued*

The fair value of the stock-based compensation to be recognized in the accounts has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

	2007	2006
Risk-free interest rate	4.04%	4.00%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	100%	126%
Expected option life in years	5.00	5.00

The company has recorded stock-based compensation for the options that vested during the period year as follows:

	2007	2006
Number of options vested	4,097,500	450,000
Total compensation recognized	373,883	39,479

The Black-Scholes Option Pricing Model was created for use in estimating the fair value of freely tradable, fully transferable options. The Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the highly subjective input assumptions can materially affect the calculated values, management believes that the accepted Black-Scholes model does not necessarily provide a reliable measure of the fair value of the Company's stock option awards.

9. Related Party Transactions

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

- a) During the nine months ended September 30, 2007, the Company incurred management fees of \$112,900 (2006 - \$41,000) charged by officers or directors of the Company director.
- b) The balance of \$9,555 (Unaudited) (2006 - \$114,854) due to related parties, is owing to directors and is unsecured and non-interest bearing.
- c) During the nine months ended September 30, 2007, the Company incurred \$7,718 (2006 - \$9,579) of interest on notes payable to directors. (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 Interim Consolidated Financial Statements

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For the Periods Ended September 30, 2007 and 2006

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.

11. Subsequent Event

Subsequent to September 30, 2007, October 25, 2007 the Company announced the issuance of 1,400,000 stock options to certain directors, officers and consultants. The options are exercisable at a price of Cdn \$0.35 for a period of five years
