

**PREMIUM EXPLORATION INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 December 2007 and 2006**

**Consolidated Balance Sheets**

As at 31 December

U.S. Funds

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
<b>Current</b>		
Cash	\$ 684,203	\$ 439,290
Receivables	196,545	29,694
Other	31,261	35,798
	<b>912,009</b>	<b>504,782</b>
<b>Resource Properties - Schedule (Note 5)</b>	<b>2,199,607</b>	<b>826,551</b>
<b>Property, Plant and Equipment (Note 6)</b>	<b>297,113</b>	<b>16,836</b>
	<b>\$ 3,408,729</b>	<b>\$ 1,348,169</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 245,299	\$ 158,227
Notes payable (Note 7)	193,904	184,153
	<b>439,203</b>	<b>342,380</b>
<b>Notes Payable (Note 7)</b>	<b>-</b>	<b>15,073</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital (Note 8)</b>	<b>4,734,079</b>	<b>1,727,317</b>
<b>Share Purchase Warrants (Note 8)</b>	<b>559,482</b>	<b>378,592</b>
<b>Contributed Surplus (Note 8)</b>	<b>745,019</b>	<b>168,410</b>
<b>Accumulated Other Comprehensive Income (Loss)</b> (Note 3c)	<b>312,858</b>	<b>(1,536)</b>
<b>Deficit - (Statement 2)</b>	<b>(3,381,912)</b>	<b>(1,282,067)</b>
	<b>2,969,526</b>	<b>990,716</b>
	<b>\$ 3,408,729</b>	<b>\$ 1,348,169</b>

Going Concern (Note 2)

Subsequent Events (Note 14)

ON BEHALF OF THE BOARD:

\_\_\_\_\_  
Del Steiner, Director\_\_\_\_\_  
Barney G. Lee Portillo, Director

## Consolidated Statements of Loss, Comprehensive Loss, Deficit and Accumulated Other Comprehensive Income (Loss)

For the years ended 31 December

U.S. Funds

	2007	2006
<b>Expenses</b>		
Stock-based compensation	\$ 582,579	\$ 168,410
Shareholder relations	291,992	76,223
Travel	275,897	99,590
Management fees	229,059	122,383
Professional fees	187,138	101,709
Foreign exchange (gain) loss	112,375	(60,779)
Office and general	128,168	26,131
General exploration	105,103	33,161
Office rent	78,699	38,735
Amortization	53,573	2,514
Transfer agent and filing fees	34,588	36,819
Interest expense	21,575	12,914
Write-off of resource property cost	5,914	318,084
Bank charges and interest	5,381	7,982
Interest income	(12,196)	(8,520)
<b>Loss for the Year</b>	<b>(2,099,845)</b>	<b>(975,356)</b>
Deficit - Beginning of Year	(1,282,067)	(306,711)
<b>Deficit, End of Year</b>	<b>(3,381,912)</b>	<b>(1,282,067)</b>
<b>Loss per Share - Basic and Diluted</b>	<b>\$ (0.08)</b>	<b>\$ (0.06)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>26,106,869</b>	<b>17,235,262</b>
<b>Loss for the year</b>	<b>\$ (2,099,845)</b>	
<b>Other Comprehensive Income (Loss)</b>		
Translation adjustment	314,394	
<b>Comprehensive Loss for the year</b>	<b>\$ (1,785,451)</b>	
<b>Accumulated Other Comprehensive Income (Loss) at 1 January (Note 3 c))</b>	<b>\$ (1,536)</b>	<b>-</b>
Translation adjustment	314,394	
<b>Accumulated Other Comprehensive income at 31 December</b>	<b>\$ 312,858</b>	

## Consolidated Statements of Cash Flows

### For the years ended 31 December

U.S. Funds

	2007		2006
<b>Operating Activities</b>			
Loss for the year	\$ (2,099,845)	\$	(975,356)
Items not affecting cash			
Amortization	53,573		2,514
Write-off resource property costs	5,914		168,410
Stock-based compensation	582,579		318,084
Unrealized Foreign Exchange	(128,660)		-
	<u>(1,586,439)</u>		<u>(486,348)</u>
Net Change in non-cash working capital	116,429		(20,574)
	<u>(1,470,010)</u>		<u>(506,922)</u>
<b>Investing Activities</b>			
Property, plant and equipment acquired	(296,186)		(15,622)
Resource property expenditures	(1,359,250)		(481,046)
	<u>(1,655,436)</u>		<u>(496,668)</u>
<b>Financing Activities</b>			
Shares issued for cash	2,883,425		1,451,668
Share purchase warrants issued for cash	368,273		347,487
Unit offering issuance costs	(108,349)		(275,206)
Repayment of notes payable	(5,322)		(34,054)
	<u>3,138,027</u>		<u>1,489,895</u>
<b>Effect of Exchange Rates on Cash</b>	<u>232,332</u>		<u>(59,099)</u>
<b>Net Increase in Cash</b>	<u>244,913</u>		<u>427,206</u>
Cash position – Beginning of year	439,290		12,084
<b>Cash Position – End of Year</b>	<u>\$ 684,203</u>	<u>\$</u>	<u>439,290</u>
<b>Supplemental Disclosure of Non-Cash Investing and Financing</b>			
Change in deferred financing costs/share issuance costs funded by accounts payable	\$ -	\$	(77,806)
Change in resource expenditures funded by accounts payable / due to related parties	\$ 65,893	\$	1,473
Change in resource expenditures included in accounts receivable	\$ 125,778	\$	-
Note payable issued for accounts payable/due to related parties	\$ -	\$	145,760
Shares issued for mineral property acquisition	\$ 38,337	\$	9,440
Fair value transfers on exercise of warrants	\$ 190,875	\$	-
Fair value transfers on exercise of options	\$ 5,970	\$	-
Warrants issued for share issuance costs	\$ 19,081	\$	-
Shares issued for finders fee	\$ 75,800	\$	-

- See Accompanying Notes -

## Consolidated Schedule of Resource Property Costs For the years ended 31 December

U.S. Funds

	Acquisition	Deferred Exploration	2007	2006
Montana Properties, U.S.A.				
Assaying	\$ -	\$ -	\$ -	\$ 59,400
Claim fees	-	-	-	27,483
Drilling	-	-	-	2,000
Field transportation	-	-	-	-
General	-	4,760	<b>4,760</b>	607
Geological	-	1,000	<b>1,000</b>	8,429
Reports	-	3,912	<b>3,912</b>	2,537
Recovery of expenditures	-	(125,778)	<b>(125,778)</b>	-
Unrealized currency adjustment	37,946	45,802	<b>83,748</b>	37,263
	<b>37,946</b>	<b>(70,304)</b>	<b>(32,358)</b>	<b>137,719</b>
Clearwater Property, U.S.A.				
Acquisition	142,949	-	<b>142,949</b>	-
Claim fees	-	5,756	<b>5,756</b>	-
Unrealized currency adjustment	3,848	(60)	<b>3,788</b>	-
	<b>146,797</b>	<b>5,696</b>	<b>152,493</b>	-
Total costs for the year U.S.A. Properties	<b>184,743</b>	<b>(64,608)</b>	<b>120,135</b>	<b>137,719</b>
Cucurpe Property, Sonora, Mexico				
Assaying	-	750	<b>750</b>	-
Field management	-	-	-	73,046
Field transportation	-	-	-	22,724
General	-	178	<b>178</b>	39,883
Geochemical	-	-	-	32,483
Geological	-	11,849	<b>11,849</b>	36,953
Staking, filing and concession fees	-	3,160	<b>3,160</b>	9,834
Surface access	-	-	-	3,122
Survey	-	-	-	8,379
Unrealized translation adjustment	18,682	9,196	<b>27,878</b>	19,693
	<b>18,682</b>	<b>25,133</b>	<b>43,815</b>	<b>246,117</b>
Nueva Galicia Property, Nayarit, Mexico				
Acquisition	182,771	-	<b>182,771</b>	41,719
Assaying	-	15,154	<b>15,154</b>	-
Drilling	-	154,227	<b>154,227</b>	-
Field management	-	14,254	<b>14,254</b>	7,682
Field transportation	-	15,287	<b>15,287</b>	9,917
General	-	17,558	<b>17,558</b>	20,566
Geochemical	-	20,333	<b>20,333</b>	3,068
Geological	-	280,841	<b>280,841</b>	56,968
Staking, filing and concession fees	-	27,262	<b>27,262</b>	3,975
Surface access	-	35,759	<b>35,759</b>	-
Survey	-	12,336	<b>12,336</b>	8,357
Unrealized currency adjustment	7,382	19,558	<b>26,940</b>	-
	<b>190,153</b>	<b>612,569</b>	<b>802,722</b>	<b>152,252</b>
Guadalupe Property, Jalisco, Mexico				
Acquisition	-	-	-	4,868
General	-	-	-	1,046
	-	-	-	<b>5,914</b>

- See Accompanying Notes -

## Consolidated Schedule of Resource Property Costs For the years ended 31 December

U.S. Funds

	Acquisition	Deferred Exploration	2007	2006
<b>Dos Amigos Property, Nayarit, Mexico</b>				
Acquisition	22,023	-	<b>22,023</b>	-
Administration	-	3,178	<b>3,178</b>	-
Field Transportation	-	2,463	<b>2,463</b>	474
General	-	2,867	<b>2,867</b>	624
Geochemical	-	9,723	<b>9,723</b>	-
Geological	-	10,974	<b>10,974</b>	-
Staking, filing and concession fees	-	2,319	<b>2,319</b>	-
Unrealized currency adjustment	-	193	<b>193</b>	-
	<b>22,023</b>	<b>31,717</b>	<b>53,740</b>	<b>1,098</b>
<b>San Pedro Analco Property, Jalisco, Mexico</b>				
Acquisition	72,899	-	<b>72,899</b>	4,868
Administration	-	2,028	<b>2,028</b>	-
Field transportation	-	1,694	<b>1,694</b>	200
General	-	2,580	<b>2,580</b>	1,354
Geochemical	-	782	<b>782</b>	-
Geological	-	37,930	<b>37,930</b>	-
Staking, filing and concession fees	-	503	<b>503</b>	-
Unrealized currency adjustment	862	275	<b>1,137</b>	-
	<b>73,761</b>	<b>45,792</b>	<b>119,553</b>	<b>6,422</b>
<b>Rosamorada</b>				
Acquisition	61,262	-	<b>61,262</b>	-
Field transport	-	155	<b>155</b>	-
General	-	633	<b>633</b>	-
Geological	-	10,993	<b>10,993</b>	-
Staking, filing and concession fees	-	96	<b>96</b>	-
	<b>61,262</b>	<b>11,877</b>	<b>73,139</b>	-
<b>Bonanza</b>				
Acquisition	53,205	-	<b>53,205</b>	-
Field transport	-	1,500	<b>1,500</b>	-
General	-	3,423	<b>3,423</b>	-
Geological	-	5,582	<b>5,582</b>	-
Management	-	191	<b>191</b>	-
Staking, filing and concession fees	-	5,260	<b>5,260</b>	-
Survey	-	2,576	<b>2,576</b>	-
	<b>53,205</b>	<b>18,532</b>	<b>71,737</b>	-

- See Accompanying Notes -

## Consolidated Schedule of Resource Property Costs For the years ended 31 December

U.S. Funds

	Acquisition	Deferred Exploration	2007	2006
La Lupe				
Acquisition	83,757	-	<b>83,757</b>	-
Administration	-	125	<b>125</b>	-
Assaying	-	1,166	<b>1,166</b>	-
Field transportation	-	1,006	<b>1,006</b>	-
General	-	1,450	<b>1,450</b>	-
Geochemical	-	457	<b>457</b>	-
Geological	-	1,042	<b>1,042</b>	-
Staking, filing and concession fees	-	5,126	<b>5,126</b>	-
	<b>83,757</b>	<b>10,372</b>	<b>94,129</b>	-
Total Period costs Mexican Properties	502,843	755,992	<b>1,258,835</b>	411,803
<b>Total Costs for the Year</b>	<b>687,586</b>	<b>691,384</b>	<b>1,378,970</b>	549,522
Write off of resource property costs	(4,868)	(1,046)	<b>(5,914)</b>	(318,084)
Balance - Beginning of year	265,897	560,654	<b>826,551</b>	595,113
<b>Balance – End of Year</b>	<b>\$ 948,615</b>	<b>1,250,992</b>	<b>2,199,607</b>	<b>\$ 826,551</b>

## Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2007 and 2006

### 1. Nature of Business

The Company was incorporated in the Province of British Columbia, Canada on 27 February 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 1 March 2006, the Company completed an Initial Public Offering ("IPO") to list on the TSX Venture Exchange ("TSX-V").

The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of amounts shown for resource properties is dependent upon several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties. Also, the Company may have to raise additional funds for future corporate and administrative expenses and to undertake further exploration and development of its mineral properties. There can be no assurance that the Company will be able to raise sufficient funds in the future.

### 2. Going Concern

These financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at 31 December 2007, the Company has an accumulated deficit of \$3,381,912 (2006 - \$1,282,067), has no source of revenue, and has significant cash requirements to meet its administrative overhead and maintain its mineral interests. The Company's ability to continue as a going concern is dependent on its ability to raise equity financing and attain profitable operations.

These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities and the reported revenues and expenses should the Company be unable to continue as a going concern.

### 3. Changes in Accounting Policies

Effective 1 January 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 instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other liabilities. All financial instruments and derivatives are measured in the balance sheet at fair market value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instruments is derecognized or impaired.

As a result of the adoption of these new standards, the Company has classified its cash as held-for-trading. Receivables are classified as loans and receivables. Accounts payable, accrued liabilities and notes payable are classified as other liabilities, which are measured at amortized cost. The adoption of Section 3855 had no impact on the opening equity and the current period losses or comprehensive losses of the Company.

#### b) Section 1530 – Comprehensive Income

Comprehensive Income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the

Premium Exploration Inc.

## Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2007 and 2006

### 3. Changes in Accounting Policies - continued

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

### 4. Significant Accounting Policies

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. The Company's key estimates relate to the recoverability of its mineral property costs, tax asset valuation allowance and the measurement of stock based compensation. Actual results may differ from those estimates. The Company's significant accounting policies are as follows:

#### a) Basis of Presentation

These consolidated financial statements include the accounts of the Company and its significant wholly-owned subsidiaries:

- Premium Exploration U.S.A., Inc. ("Premium USA"), which was incorporated at nominal cost in the State of Nevada, U.S.A.
- Compania Minera Zorro de Plata, S.A. de C.V. ("CMZ"), which was incorporated at nominal cost in the State of Sonora, Mexico.

#### b) Resource Properties

Acquisition costs of mineral properties and direct exploration and development expenditures thereon are capitalized on an individual prospect basis. Costs relating to properties abandoned are written-off when such decision is made. When production is attained, these costs are amortized using the unit of production method based upon estimated recoverable reserves.

General exploration costs are expensed in the period incurred where no claim is ultimately staked in the area or no property agreement is completed to cover the area explored.

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.

## Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2007 and 2006

### 4. Significant Accounting Policies – *continued*

#### c) Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is recorded at rates sufficient to write-off the cost of the assets over their estimated useful lives. The methods and annual amortization rates are as follows:

Field equipment – 20% straight line basis

Furniture and equipment – 20% straight line balance

#### d) Property Option Agreements

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received. The Company does not accrue the estimated costs of maintaining its mineral interests in good standing.

#### e) Stock-Based Compensation

The Company applies the recommendations of CICA Handbook Section 3870, stock-based compensation and other stock-based payments, effective to all awards granted by the Company. This established standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

All stock-based awards made to employees and non-employees are measured using a fair value based method and recognized over the vesting period of the options.

#### f) Loss per Share

Loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the loss per share. The dilutive effect of convertible securities would be reflected in diluted loss per share by application of the “if converted” method. The dilutive effect of outstanding options and warrants and their equivalents would be reflected in diluted earnings per share by application of the treasury stock method.

#### g) Asset Retirement Obligations

The Company applies the recommendations of CICA Handbook Section 3110, *Asset Retirement Obligations*. This section requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in regulations; the extent of environmental remediation required or completed, the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

## Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2007 and 2006

### 4. Significant Accounting Policies – *continued*

#### h) 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.

#### i) Future Income Taxes

The future income tax asset and liability method of accounting for income taxes is used, whereby future income tax assets and liabilities are recorded based on temporary differences between the carrying amounts of balance sheet items and their corresponding tax bases. Future income tax assets also arise from unused tax losses, subject to a valuation allowance, to the extent that it is more likely than not such losses ultimately will be utilized. This method also requires that the future income tax assets and liabilities be measured using the enacted rates and laws that are expected to apply when these assets and liabilities are either to be realized or settled.

#### j) Comparative Figures

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

#### k) Environmental

The operations of the Company may, in the future, be affected by changes in environmental regulations, including those for future reclamation and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable.

#### l) Accounting Changes

During the fiscal year, the Company adopted the recommendations of the CICA Handbook Section 1506, *Accounting Changes*. This new standard establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting practices and estimates, and correction of errors, replacing CICA Handbook Section 1506. This section also requires disclosure of new accounting pronouncements which have been issued but have not yet become effective. This is not expected to have a material effect on the Company's financial statements or on its results of operations.

# Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2007 and 2006

## 4. Significant Accounting Policies – *continued*

### m) Recent Canadian Generally Accepted Accounting Principle Pronouncements

**Section 1535 – Capital Disclosures** This section requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes of managing capital. These recommendations are effective for the Company's reporting periods beginning 01 January 2008. This new standard is not expected to have a material effect on the Company's financial statements or on its results of operations.

**Sections 3862 and 3863 Financial Instruments – Disclosure and Presentation** These sections require disclosure of qualitative and quantitative information in their financial statements that enable users to evaluate, the significance of financial instruments for the entity's financial position and performance and, the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives policies and procedures for managing such risks. These recommendations are effective for the Company's reporting periods beginning 01 January 2008. Disclosure of the measurement basis used and the criteria used to determine classification for different types of financial instruments are also required.

### Section 1400 Assessing Going Concern

The Canadian Accounting Standards Board (AcSB) amended CICA Handbook Section 1400 to include requirements to assess and disclose an entity's ability to continue as a going concern. This section applies to financial statements relating to fiscal years beginning on or after 01 January 2008

### International Financial Reporting Standards

In addition to the above accounting pronouncements the AcSB published, in 2006, a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) over an expected 5 year transitional period. In February of 2008 the AcSB announce that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for financial statements relating to fiscal years beginning on or after 01 January 2011. The transition date of 01 January 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended 31 December 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## 5. Resource Properties

### a) Details of cumulative expenditures are as follows:

	Acquisition	Exploration	31 December 2007
Mineral Properties			
Montana Properties, U.S.A. (Notes 5b)	\$ 252,388	218,580	\$ 470,968
Clearwater Property, USA (Note 5c)	146,797	5,696	152,493
Cucurpe Property, Sonora, Mexico (Note 5d)	-	201,354	201,354
Nueva Galicia Property, Nayarit, Mexico (Note 5e)	231,872	723,102	954,974
Dos Amigos Property, Nayarit, Mexico (Note 5g)	22,023	32,815	54,838
San Pedro de Analco Property, Jalisco, Mexico (Note 5h)	78,629	47,346	125,975
Rosamorada Property, Nayarit, Mexico (Note 5i)	61,262	11,874	73,136
Bonanza Property, Guanajuato, Mexico (Note 5j)	58,205	18,532	76,737
La Lupe Property, Durango, Mexico (Note 5k)	78,757	10,372	89,129
	<u>\$ 929,933</u>	<u>1,269,671</u>	<u>2,199,604</u>

Premium Exploration Inc.

## Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2007 and 2006

**5. Resource Properties - continued**  
**b) Montana Properties, U.S.A. - continued**

	Acquisition	Exploration	31 December 2006
Mineral Properties			
Montana Properties, U.S.A. (Notes 5b)	\$ 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, in prior years, 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, paid \$20,000 to one of the vendors and completed the required exploration expenditures on the properties. The Company has staked an additional 30 claims, which are contiguous to the 137 acquired claims.

By an agreement date 1 June 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 1 January 2011 the Company will maintain a 20% interest.
- 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.

**c) Clearwater Property, Idaho, U.S.A.**

By a letter of intent dated 1 September 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").

Under the terms and conditions of the letter of intent with Clearwater, the Company 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. Including acquisition costs of \$142,949 paid in the year.

Premium Exploration Inc.

**Notes to Consolidated Financial Statements**

U.S. Funds

For the Years Ended 31 December 2007 and 2006

**5. Resource Properties - continued**

**c) Clearwater Property, Idaho, U.S.A.**

- Assumption of all other obligations of Clearwater 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 the Company should vend or transfer all or part of the South Orogrande shear zone to a third party within one year, the Company shall pay Clearwater 25% of all cash and stock-based consideration that it receives in turn for making the transfer to the third party. In the event that the Company spends \$500,000 on developing the property and more than one year passes before the Company transfers all or part of the South Orogrande shear zone to a third party, then the Company shall pay to Clearwater \$200,000 and grant a 15-per-cent net profits interest in the South Orogrande shear zone to Clearwater.

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

At 31 December 2007, the Company had staked and directly controlled 12 exploration concessions in the Caliche Hill area, known as the Cucurpe Property.

As provided by an option agreement dated 9 December 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 20 May 2009. In October 2006, the optionor filed a lawsuit against the Company alleging that the \$200,000 work requirement due by 30 May 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 20 January 2007. The Company recorded a write-off of capitalized costs of \$318,084 on the abandonment of this option during the year ended 31 December 2006.

**e) Nueva Galicia Property, Nayarit, Mexico**

By an exploration agreement with purchase option dated 7 July 2006 and amended 30 November 2006, the Company has the right 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		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	(paid)	150,000	(vi)
7 January 2008	50,000	(iv)	60,000	(v)	150,000	(vi)
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	
<b>Total</b>	<b>500,000</b>	<b>\$</b>	<b>1,000,000</b>	<b>\$</b>	<b>1,800,000</b>	

- (i) Issued at fair value \$9,440
- (ii) Issued at fair value \$9,758
- (iii) Issued at fair value \$10,091
- (iv) Issued subsequently
- (v) Paid subsequently
- (vi) complete

## Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2007 and 2006

### 5. Resource Properties – *continued*

#### e) Nueva Galicia Property, Nayarit, Mexico

The Company has the right to acquire the property for a payment of \$1,000,000 and the issuance of 500,000 common shares, less any cash payments or share issuances made to that date. Should the Company complete the acquisition and the property reaches commercial production, the vendor will be entitled to a further payment of up to 500,000 additional common shares, to a maximum value at the date of issuance of \$1,000,000.

#### f) Guadalupe Property, Jalisco, Mexico

By a letter of intent dated 25 August 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 Company has elected not to pursue this venture and accordingly the Company has written off property expenditures of \$5,914 during the current year.

#### g) Dos Amigos Property, Nayarit, Mexico

By a letter of intent dated 23 January 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 14 August 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 of letter of intent	\$	5,000	(i)\$	-
On signing definitive agreement		20,000	(i)	-
15 August 2008		125,000		50,000
15 August 2009		250,000		250,000
15 August 2010		600,000		700,000
<b>Total</b>	<b>\$</b>	<b>1,000,000</b>	<b>\$</b>	<b>1,000,000</b>

(i) complete

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

#### h) San Pedro Analco Property, Jalisco, Mexico

By a letter of intent dated 25 August 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. On 11 January 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
11 January 2007	10,000	(i)\$	25,000	(ii)\$	-
11 July 2007	15,000	(i)	50,000	(ii)	50,000
11 January 2008	15,000	(iv)	50,000	(v)	250,000
11 July 2008	25,000		125,000		250,000
11 January 2009	25,000		125,000		250,000
11 July 2009	80,000		250,000		500,000
11 January 2010	80,000		250,000		500,000
<b>Total</b>	<b>250,000</b>	<b>\$</b>	<b>875,000</b>	<b>\$</b>	<b>1,800,000</b>

(i) Issued  
(ii) Paid  
(iii) Complete  
(iv) Issued subsequently  
(v) Paid subsequently

Premium Exploration Inc.

## Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2007 and 2006

### 5. Resource Properties - continued

#### i) Rosamorada Property, Nayarit, Mexico

On 14 August 2007 the Company paid \$50,000 and entered into a definitive option agreement on two concessions, in the municipality of Rosamorada, the State of Nayarit, Mexico. The Company must complete the following to maintain the option in good standing:

	Cash Payments	Complete Exploration Expenditures
On the date of execution	\$ 50,000	(i)\$ -
15 August 2008	100,000	100,000
15 August 2009	250,000	200,000
15 August 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.

#### j) Bonanza Property, Guanajuato, Mexico

On 3 December 2007 the Company paid \$10,000 and entered into a definitive option agreement to exploration rights on two concessions, in the municipality of Victoria in the State of Guanajuato, Mexico. The Company must complete the following in order to maintain the option in good standing:

	Cash Payments
On the date of execution	\$(i) 50,000
3 June, 2008	50,000
3 December 2008	50,000
3 June, 2009	50,000
3 December 2009	100,000
3 June, 2010	100,000
3 December 2010	600,000
Total	\$ 1,000,000

(i) Paid

On entering commercial production the vendors will receive 1.0% net smelter return or \$1,000,000.

#### k) La Lupe Property, Durango, Mexico

On 03 December 2007 the Company paid \$10,000 and entered into a definitive option agreement to exploration rights on two concessions, in the State of Durango, Mexico. The Company must complete the following in order to maintain the option in good standing:

	Cash Payments
3 December 2007	(i)\$ 70,000
3 June 2008	70,000
3 December 2008	120,000
3 June 2009	210,000
3 December 2009	630,000
Total	\$ 1,100,000

(i) Paid

On completing a bankable feasibility study the vendors will receive \$500,000 and on entering commercial production the vendors will receive \$1,000,000.

Premium Exploration Inc.

**Notes to Consolidated Financial Statements**

U.S. Funds

For the Years Ended 31 December 2007 and 2006

**6. Property, Plant and Equipment**

Details are as follows:

31 December 2007	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 114,896	\$ 16,816	\$ 98,080
Field equipment	244,587	45,554	199,033
	<b>\$ 359,483</b>	<b>\$ 62,370</b>	<b>\$ 297,113</b>
31 December 2006	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 20,317	\$ 3,481	\$ 16,836

**7. Notes Payable**

Details are as follows:

	31 December 2007	31 December 2006
Delbert Steiner, a director, promissory note payable, unsecured, bears interest at 8% per annum, repayable 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	20,644	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
	<b>193,904</b>	199,226
Current portion	<b>193,904</b>	184,153
	<b>\$ -</b>	<b>\$ 15,073</b>

Premium Exploration Inc.

**Notes to Consolidated Financial Statements**

U.S. Funds

For the Years Ended 31 December 2007 and 2006

**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
Balance – 31 December 2005	12,914,303	\$ 664,799	-	\$ -
Issuance of shares - IPO, including corporate finance fee units	5,050,000	1,084,557	2,525,000	252,728
Agent's warrants - IPO	-	-	500,000	99,741
Share issuance costs - IPO	-	(360,204)	-	(82,917)
Shares issued for resource property	50,000	9,440	-	-
Private placement	2,750,000	377,849	1,375,000	97,231
Agent's warrants - private placement	-	-	270,000	24,450
Share issuance costs - private placement	-	(49,124)	-	(12,641)
<b>Balance – 31 December 2006</b>	<b>20,764,303</b>	<b>\$ 1,727,317</b>	<b>4,670,000</b>	<b>\$ 378,592</b>
Issuance of shares for property	125,000	38,337	-	-
Issuance of shares on private placements	8,354,250	2,220,228	4,058,500	368,273
Issuance of agents warrants	-	-	210,000	25,156
Issuance of shares exercise of options	37,500	7,178	-	-
Issuance of shares on warrant exercise	2,481,540	731,819	-	-
Fair value transfer on exercise of options	-	5,970	-	-
Fair value transfer on exercise of warrants	-	190,875	(2,481,540)	(190,875)
Share issuance costs	-	(187,645)	-	(21,664)
<b>Balance – 31 December 2007</b>	<b>31,762,593</b>	<b>\$ 4,734,079</b>	<b>6,456,960</b>	<b>\$ 559,482</b>

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

On 12 March 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\$20,000 and 210,000 common share purchase warrants (fair value \$25,156) and a finder fee of C\$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.

On 15 June 2007 the Company issued 1,546,750 units of the Company at C\$0.40 for total gross proceeds of C\$618,700, 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 15 June 2008. The Company paid a finders fee of \$20,000 on the private placement.

On 22 July 2007 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 23 August 2008. In addition the company paid finders fees of C\$32,750 and issued 201,250 (fair value C\$80,500) shares in connection with the offering.

## Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2007 and 2006

### 8. Share Capital - *continued*

The Company completed an IPO, during fiscal 2006, of 5,000,000 units at C\$0.30 per unit for gross proceeds of \$1,337,285 (C\$1,500,000). 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 two years, to March 1, 2008, from the date of the IPO at C\$0.40 per share. The Company received gross proceeds of \$1,176,240 (C\$1,335,621) on February 27, 2006 after deducting \$118,910 (C\$135,000) cash commission, the \$6,605 (C\$7,500) balance of the work fee of \$13,210 (C\$15,000) and the agent's expenses of the IPO. The Company also paid related legal fees and other costs related to the prospectus of approximately \$182,335, including the \$167,014 in deferred finance costs at December 31, 2005.

The agent also received 500,000 share purchase warrants (*fair value* \$99,741). Each agent's warrant allows the agent to acquire one additional common share for two years, to March 1, 2008, from the date of the IPO at C\$0.30 per share. In addition, the agent received a corporate finance fee totalling 50,000 units (*fair value* \$13,373). Each unit consists 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 two years, to March 1, 2008, from the date of the IPO at C\$0.40 per share.

The Company completed a private placement on December 14, 2006 of 2,750,000 units at C\$0.20 per unit for gross proceeds of \$475,080 (C\$550,000). 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, to November 9, 2007, at C\$0.25 per share. The agent received a cash commission of \$37,315 (C\$43,200) and 270,000 share purchase warrants (*fair value* \$24,450). Each agent's warrant allows the agent to acquire one additional common share for one year, to November 9, 2007, from the date of the IPO at C\$0.25 per share.

For each offering discussed above 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 100%(2006 – 100% and 152%), an estimated risk-free rate of between 4.19% – 4.25( 2006 – 2.9% and 4.9%), an estimated dividend rate of 0.00%(2006 – 0%) and an estimated life of the warrants of 1 year (2006 -1 year and 1 year), respectively.

There were originally 7,280,001 shares, subject to an escrow agreement dated 31 December 2004 and an amendment dated 1 November 2005. Under the terms of the amended escrow agreement 728,001 shares were released from escrow on the date the shares of the Company were listed on the TSX-V and 1,092,000 will be released at the completion of each six-month period after the initial listing date. As at 31 December 2007, there are 2,184,000 shares remaining subject to the amended escrow agreement.

#### c) Summary of stock option activity

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.

Premium Exploration Inc.

**Notes to Consolidated Financial Statements**

U.S. Funds

For the Years Ended 31 December 2007 and 2006

**8. Share Capital - continued**

Stock option activity during the year is summarized as follows:

	2007	Weighted Average Exercise Price	2006	Weighted Average Exercise Price
Balance - beginning of year	1,925,000	Cdn\$0.25	-	Cdn\$ -
Granted	3,530,000	0.30	1,925,000	0.25
Exercised	(37,500)	0.20	-	-
Expired / Cancelled	(537,500)	0.26	-	-
Balance – end of year	4,880,000	Cdn\$0.28	1,925,000	Cdn\$0.25

Details of stock options outstanding as at 31 December are as follows:

Expiry Date		Exercise Price	2007	2006
1 March 2011	Cdn\$	\$ 0.30	600,000	900,000
15 November 2011	Cdn\$	\$ 0.20	600,000	600,000
15 November 2011	Cdn\$	\$ 0.20	150,000	425,000
5 March 2012	Cdn\$	\$ 0.23	1,500,000	-
24 April 2012	Cdn\$	\$ 0.35	200,000	-
24 April 2012	Cdn\$	\$ 0.40	130,000	-
24 April 2012	Cdn\$	\$ 0.30	300,000	-
24 October 2012	Cdn\$	\$0.35	1,400,000	-
			<b>4,880,000</b>	<b>1,925,000</b>

The outstanding options have a weighted-average exercise price of Cdn\$0.28 and the weighted-average remaining life of the options is 4.21 years. As at 31 December 2007, a total of 3,289,375 (2006 – 898,958) of these outstanding options had vested. Total exercisable is 2,892,500 with a weighted average exercise price of Cdn \$0.28.

The Company used the Black-Scholes model to value the options using an estimated volatility of 100.00% (2006 – 100-152.9%), an estimated risk-free rate of 3.09% - 4.10% (2006 - 2.90% - 4.25%), an estimated dividend rate of 0.00 % (2006 – 0.00%) and an estimated life of the options of 5 years (2006 - 5 years).

**d) Warrants**

	2007	Weighted Average Exercise Price	2006	Weighted Average Exercise Price
Balance - beginning of year	4,670,000	Cdn\$0.34	-	-
Issued	4,268,500	0.44	4,670,000	Cdn\$0.34
Exercised	(2,481,540)	0.29	-	-
Balance – end of year	6,456,960	Cdn\$0.28	4,670,000	Cdn\$0.34

A summary of outstanding is as follows:

	Price	Expiry	Number of Warrants (i)
Issued - 1 March 2006	C\$0.40	1 March 2008	2,097,500
Issued - 1 March 2006 - Agent	C\$0.30	1 March 2008	406,960
Issued - 12 March 2007	C\$0.35	12 March 2008	1,334,000
Issued - 12 March 2007 - Agent	C\$0.30	12 March 2008	210,000
Issued - 3 June 2007	C\$0.50	15 June 2008	773,375
Issued - 22 August 2007	C\$0.50	22 August 2008	1,635,125
Balance – 31 December 2007			<b>6,456,960</b>

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

Premium Exploration Inc.

## Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2007 and 2006

### 8. Share Capital - *continued*

#### e) Stock-based compensation

For the year ended 31 December, the Company issued stock options to its directors, officers, employees, and consultants and recognized stock-based compensation as follows:

	2007	2006
Total options granted	<u>3,530,000</u>	1,925,000
Average exercise price (in Cdn\$)	0.30	0.25
Estimated fair value of compensation	821,362	342,721
Estimated fair value per option	<u>\$0.23</u>	<u>\$0.18</u>

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	3.64%	4.00%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	100.00%	128.17%
Expected option life in years	<u>4.93</u>	<u>5.00</u>

Stock-based compensation for the options that vested during the period year is as follows:

Details are as follows

	2007	2006
Number of options vested	<u>2,583,125</u>	706,250
Total compensation recognized	<u>\$582,579</u>	<u>\$168,410</u>

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.

#### f) Contributed Surplus

Details are as follows:

	2007	2006
Balance - beginning of year	\$ 168,410	\$ -
Stock-based compensation	582,579	168,410
Fair value of stock options exercised	<u>(5,970)</u>	-
Balance - end of year	<u>\$ 745,019</u>	<u>\$ 168,410</u>

### 9. Related Party Transactions

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

- a) The Company paid management fees of \$76,500 (2006 - \$56,000) to a director in his capacity of chief executive officer.
- b) The Company paid salaries of \$24,000 (2006 - nil) to an officer of the Company in the capacity of chief financial officer.
- c) Included in accounts payable is \$3,673 (2006 - \$38,844) owing to directors.
- d) The Company incurred \$21,575 (2006 - \$12,914) 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, the amount of consideration established and agreed to by the parties.

Premium Exploration Inc.

**Notes to Consolidated Financial Statements**

U.S. Funds

For the Years Ended 31 December 2007 and 2006

**10. Segmented Disclosure**

	<b>Capital Assets</b>
December 31, 2007	
Canada	<b>25,797</b>
United States	<b>768,433</b>
Mexico	<b>1,702,490</b>
<b>Total</b>	<b>2,496,720</b>
December 31, 2006	Capital Assets
Canada	\$ 3,098
United States	503,326
Mexico	336,963
<b>Total</b>	<b>\$ 843,387</b>

**11. Income Taxes**

	<b>2007</b>	<b>2006</b>
Consolidated accounting loss before taxes	\$ (2,099,845)	\$ (975,356)
Adjustments between accounting and taxable income:		
Amortization	53,573	2,514
Stock-based compensation	594,590	168,410
Share issuance costs	(124,242)	(73,396)
Write of resource property costs	5,914	318,084
Unrealized foreign exchange	112,375	(44,730)
Consolidated income for tax purposes	<b>(1,457,635)</b>	(604,474)
Statutory tax rate	<b>34.1%</b>	34.1%
Tax expense at statutory rates	<b>(497,000)</b>	(206,125)
Increase (decrease) in taxes due to:		
Foreign income at different tax rates	600	2,458
Current valuation allowance (recovery)	497,600	203,667
	<b>\$ -</b>	<b>\$ -</b>
	<b>2007</b>	<b>2006</b>
Non-capital loss carry-forwards	\$ 737,600	310,400
Property, plant and equipment	16,800	3,800
Share issuance costs	110,600	92,000
	<b>865,000</b>	406,200
Valuation allowance	<b>(865,000)</b>	(406,200)
Future tax assets	-	-

- b) The Company has tax loss carry-forwards in Canada of approximately \$1,500,000, which expire up to 2027. The future potential tax savings associated with the loss carry-forwards has not been recognized in these financial statements.
- c) The Company has tax loss carry-forwards in the United States of approximately \$610,000, which expire up to 2026. In addition, the Company has incurred approximately \$623,000 (2006 - \$503,000) of exploration and development expenses in the United States, which have not been deducted for income tax purposes. The future potential tax savings associated with these items have not been recognized in these financial statements.
- d) The Company has tax loss carry-forwards in Mexico of approximately \$460,000, which expire up to 2016. In addition, the Company has incurred approximately \$1,516,000 (2006 - \$323,000) of exploration and development expenses in Mexico, which have not been deducted for income tax purposes. The future potential tax savings associated with these items have not been recognized in these financial statements.

## Notes to Consolidated Financial Statements

*U.S. Funds*

For the Years Ended 31 December 2007 and 2006

### 12. Financial Instruments

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, due to related parties and notes payable. The fair value of these financial instruments approximates their carrying value, unless otherwise noted. At 31 December 2007 the Company held currency totalling Cdn\$571, 917; US\$75,958; and Pesos\$315,724, which is exposed to currency risk given fluctuations in the prevailing exchange rates between the Canadian, US and Mexican currencies. Unless otherwise noted, it is managements' opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

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.

### 13. Subsequent Events

On February 15, 2008, the Company granted 300,000 stock options to directors and consultants for 5 years, to February 15, 2013 at \$0.66 per share.