

**PREMIUM EXPLORATION INC.**  
**Report to Shareholders and**  
**Management Discussion and Analysis**  
**Of the Financial Position and Results of Operations**  
**For the Quarter Ended March 31, 2008**

**May 30, 2008**

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**TO OUR SHAREHOLDERS:**

This Management's Discussion and Analysis ("MD&A") supplements, but does not form part of, the interim consolidated financial statements of the Company and the notes thereto for the quarter ended March 31, 2008. Consequently, the following discussion and analysis of the financial condition and results of operations for Premium Exploration Inc. ("Premium" or the "Company"), should be read in conjunction with the interim consolidated financial statements for the quarter ended March 31, 2008 and related notes therein, which have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied.

Discussion of the Company, its operations and associated risks is further described in the Company's filings, available for viewing at [www.sedar.com](http://www.sedar.com). A copy of this MD&A will be provided to any applicant upon request.

**FORWARD-LOOKING STATEMENTS**

Certain statements contained in the following MD&A and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth in the Company's filings and herein.

**GENERAL**

Premium is a mineral exploration company that specializes in prospect generation in Mexico and the United States. The Company's portfolio currently holds 8 projects in various stages of exploration from grassroots to advance stage projects in Montana, and Idaho, USA and Durango, Guanajuato, Jalisco, Nayarit and Sonora, Mexico. Our principal business activities have been the exploration of two mineral properties known as the Chrome Mountain Property, located in the State of Montana, USA, and the Nueva Galicia Property, located in the State of Nayarit, Mexico.

The Company's Chrome Mountain Property consists of 167 mining claims acquired through three separate acquisition agreements that were completed during the third and fourth quarters of 2004 and 60 additional claims staked by the Company during 2006. The 970 hectare property is a platinum, palladium, rhodium and gold target located approximately 1.5 km from the East Boulder Mine's underground drift within the ultra-mafic layered intrusion of the Stillwater Complex. Chrome Mountain is being explored as part of a joint venture agreement with Beartooth Platinum Corporation.

The Company's Nueva Galicia Property consists of approximately 18,125 hectares and is a gold-silver target currently undergoing a Phase I, 2,000 metre drill program.

The Chrome Mountain Property, and the Nueva Galicia Property are the primary exploration properties held by the Company – see *Mineral Exploration*. The Company has also recently entered into several other letters of intent on other Mexican properties - see *Mineral Exploration*.

## **SIGNIFICANT EVENTS AND TRANSACTIONS**

During the first quarter of 2008, the Company conducted the following significant events or transactions:

- January 29<sup>th</sup>, 2008, the Company filed an NI-43-101 report on their Friday/Petsite property. The report reviews the extensive historical exploration work conducted on the South Orogrande Shear Zone over the past 20 years. The property is described by Wilf Struck, P.Eng. and Qualified Person, as an Advanced Exploration Property and concluded that past exploration has defined a medium-sized disseminated gold deposit potentially expandable through additional exploration.
- February 15, 2008, the Company granted 300,000 stock options to directors and consultants for 5 years, to February 15, 2013 at \$0.23 per share.
- March 3<sup>rd</sup>, 2008, the Company released the drill results from the 2007 drill program on their joint ventured Chrome Mountain Property. All holes intercepted anomalous gold + platinum + palladium mineralization with a high of 11.909 g/t. The platinum to palladium ratios averaged 1:1.14 indicating that the Chrome Mountain target contains relatively more platinum than the North American average from producers. Rhodium assays returned rhodium to platinum ratios that averaged 8:1.
- March 6<sup>th</sup>, 2008, the Company acquired the La Lupe property, located in Durango, Mexico. The property consists of a single claim of 900 hectares and Premium holds an option to earn 100% of the property through its 100%-owned Mexican subsidiary, Compañía Minera Zorro de Plata, S.A. de C.V., by making staged cash payments totaling \$1,100,000USD over two years. The option agreement also includes a payment of \$500,000 upon receipt of a bankable feasibility study, and of \$1,000,000 upon commencement of commercial production, with no NSR. A finder's of \$10,000 USD is payable to a second party for the transaction.
- March 11<sup>th</sup>, 2008, the Company announced the results from its surface sampling program and plans for a trenching program on its Rosamorada project in Nayarit, Mexico
- March 25<sup>th</sup>, 2008, the Company announced drill results from its Nueva Galicia property with the following highlights:
  - 10.2 g/t Au, 309.8 g/t Ag over 2.8m from 12.6m depth (NG-07-012)
  - 8.79 g/t Au, 1309.7 g/t Ag over 1.52m from 18.9m depth (NG-07-013)

## **MINERAL EXPLORATION**

### ***Chrome Mountain , Montana, USA***

Chrome Mountain consists of 970 hectares and is currently under a Joint Venture agreement with Beartooth Platinum Corporation (BTP). The Pine Claim Shear Zone is excluded from the agreement. As at April 24, 2008, assays had been resubmitted for rhodium and ruthenium assaying and Premium was awaiting the results. Premium's JV Operator, Beartooth Platinum Corp., is obligated to spend \$1,000,000 in exploration activities. Exploration activities for the 2008 field season will include geochemical sampling on the 8 km to the west of the property to test the extent of the anomaly.

### ***North Orogrande Shear Zone – Buffalo Gulch, Idaho, USA***

Buffalo Gulch is under a Letter of Intent to Joint Venture with the Clearwater Mining Corporation to explore and develop the northern extension of the property. The pre-production gold deposit is comprised of 107 unpatented quartz lode mining claims. Soil sampling on the property has been completed and results are being evaluated. The property is in the process of being re-permitted for production.

A 500 sample soil geochemical program conducted in the fall of 2007 was designed to delineate the southern extent of the gold mineralization on the Buffalo Gulch property. The soil sampling will assist in defining additional drill targets south of the currently defined Buffalo Gulch Deposit. It is expected, pending receipt of the necessary permits and approvals, that additional drilling will be conducted at Buffalo Gulch during the 2008 exploration field season.

With this Joint Venture, Premium now controls both the North and South ends of the 26 mile long shear zone, while Clearwater Mining Corporation retains control over the Central Orogrande Shear Zone. The soil samples are being evaluated on both Buffalo Gulch and Friday/Petsite and a \$4,000,000 drill program is being put together for these properties that will extend over a two year period.

### ***South Orogrande Shear Zone – Friday/Petsite , Idaho, USA***

The Friday/Petsite property is under a Letter of Intent to acquire the South Orogrande Shear Zone from Clearwater Mining Corporation. The property is located in the vicinity of Elk City, Idaho and is comprised of two properties Friday/Petsite and the Dixie Property (the Dixie Property is discussed separately). The Friday/Petsite property consists of 120 claims and includes the two past-producing mines locally known as the Orogrande Mine and the Frisco Pit.

The property is NI 43-101 compliant and has an Inferred Resource of 531,890 ounces. Premium believes this resource may be increased through further exploration work as the deposit is open to the north and south along strike and at depth. In Premium's review of the historical exploration data of this disseminated gold deposit, Premium has identified three additional targets, some of which are associated with geochemical / geophysical gold anomalies in the near vicinity of this deposit that have not been drill tested to date.

In conjunction with the acquisition of the lode claims and associated drill inferred gold mineralization, Premium is also acquiring all available historical data including geological mapping, geochemical and geophysical surveys, drill logs, core samples, and other related geologic data. Premium is currently reviewing this historical data on the South Orogrande Shear Zone and intends to conduct a drilling program, and will be engaging potential joint venture partners to further develop this project. Premium has completed a 150 sample soil campaign. The northern end of the property is currently being mapped and will extend the anomaly to the north.

***Nueva Galicia, Nayarit, Mexico***

During the fourth quarter of 2007, Premium completed 13 holes totalling 605 meters of diamond drilling of the Phase I, 2000 meter drilling program. The program is focused on exploration along strike and at depth of 10 high-grade silver-gold ore shoots exposed at surface. The drill program was suspended for the 2007 holiday season and Premium expects to resume the drill program in the Spring of 2008 with two drills working the property. The Phase I drill program will be completed before the rainy season begins and results will be evaluated through the rainy season with drilling resuming in October. By the end of the Phase I drill program, Premium can begin the calculation of a 43-101 resource. Mapping and sampling to date has been completed on approximately 10% of the property. Detailed geophysics program has been designed to further identify structures and targets.

***Bonanza, Guanajuato, Mexico***

Premium has executed an option to acquire 100% of the Bonanza Gold Property, located in Guanajuato State, central Mexico. Under this option Premium has acquired the right to purchase 599 hectares from the property vendor. In addition, Premium has staked new claims covering approximately 9045 hectares around the optioned property that covers a structural window. Exploration targets at Bonanza include high-grade gold-silver vein deposits and disseminated bulk-tonnage gold-silver deposits. The first phase of mapping and sampling has been completed and results are being evaluated. The second phase of mapping and sampling will be completed to identify targets on the property. If a high grade target is established, a 500-700 meter trenching program will be completed. If trenching results are favourable, a 2000 meter drill program will be conducted to identify the structures.

***Cucurpe, Sonora, Mexico***

At 31 March 2007, the Company controlled 12 exploration concessions in the area. At this time, no exploration is being carried out on this property, as the Company's current focus is on the Nueva Galicia property, among other recent acquisitions

***Dos Amigos***

The Dos Amigos property is under current evaluation by the Company but time and fiscal constraints have meant that it has not be an active development. The Company expects to complete the initial analysis within the first 6 months of 2008.

***La Lupe, Sinaloa, Mexico***

The property is located in the Sierra Madre region of western Durango and consists of 900 hectares. Preliminary sampling showed up to 5,337.5 g/t silver and 11.79 g/t gold. A detailed exploration program of geological and structural mapping and surface sampling is underway to identify structures. An office has been established in Durango to accommodate the crew and Premium will have two people working continuously on mapping and sampling.

***Rosamorada, Nayarit, Mexico***

The Rosamorada property is located in Nayarit State, west central Mexico and consists of 300 hectares. Surface sampling was carried out in 2007 and a 500 metre trenching program has been completed. The trenching will be followed by drilling in September if trenching results are favourable.

***San Pedro Analco, Jalisco, Mexico***

The San Pedro Analco property is located in Jalisco State, Mexico and consists of 1,136 hectares. Premium has an option to earn 100% of the property by making staged cash and share payments and exploration expenditures over three years. The property is a past producer with production from five underground mines. Preliminary mapping and sampling has been carried out in four of the five mines and 100 underground samples have been taken. The next stage of exploration will include surface and

underground mapping and sampling in preparation of a geophysical survey to map structures at depth. This will be followed by drilling to test the extent of the existing resource.

### **Results of Operations**

The loss for the period ended 31 March 2008 was \$613,131, which compares to a loss of \$238,768 in same quarter of 2007. The increase in the loss for the current year is due to a number of factors key among them being:

- Stock-based compensation expense of \$136,186 (2007 – 121,285) this is a non cash expense related to the granting of stock awards to officers, directors and consultants, which increased in accordance with the maturing of the Company.
- Shareholders relations expense of \$151,947 (2007 – 39,169) the increase is primarily a result of the expansion and growth of the Company, which included hiring two full-time investor relations staff in-house.
- Travel expense of 57,932 (2007 – 29,287) resulting from the increased activity in Mexico in accordance with our growth and attendance at various promotional shows
- Management Fees of \$62,546 (2007 – 48,802) from the necessary increases relating operating a larger more active Company, actively operating in Canada, United States and Mexico.
- Professional fees of 59,963 (2007 – 8,225) relating to the increased legal and audit costs of the current reporting atmosphere.
- Foreign exchange losses of \$3,106 (2007 – gain of 42,260) These losses arise a result of the fluctuations in foreign currency rates.
- Office and general expense of \$27,704 (2007 – 8,153) based on the general increases in size and activity
- General Exploration costs of \$69,941 (2007 – \$Nil) have increased as the Company continues to search for new properties and include any amounts expensed prior to acquiring an option agreement on a given property. Accordingly expenses in the new projects in Mexico were recorded here until the signing of a letter of intent or definitive agreement.
- Office rent expense \$19,806 (2007 – 13,126) has increased as the Company formerly shared office space and now is the sole occupant.

### **SUMMARY OF QUARTERLY RESULTS**

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

Three Months Ended	Mar-08	Dec-07	Sep-07	Jun-07	Mar-07 Restated	Dec-06	Sep-06	Jun-06
Total Revenues	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Loss from continuing operations	\$613,131	723,667	549,460	587,950	\$238,768	\$322,125	\$445,596	\$113,369
Loss for the period	\$613,131	723,667	549,460	587,950	\$238,768	\$322,125	\$445,596	\$113,369
Loss per share	\$(0.02)	(0.03)	(0.02)	(0.02)	\$(0.01)	\$(0.02)	\$(0.02)	\$(0.01)

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 As Previously Reported		Restatement	March 31, 2007 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)

## **FINANCIAL POSITION AND LIQUIDITY**

Premium has no history of profitable operations and its mineral projects are at an early stage. Therefore, it is subject to many risks common to comparable companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

At the end of the quarter under review, the Company had a working capital of \$1,171,000 as compared to a working capital of \$473,000 at December 31, 2007. The change during the quarter primarily reflects the exercising of warrants that were due to expire for a net inflow from share capital financing activities for gross proceeds of Cnd\$1,597,000.

At March 31, 2007, the Company had cash on hand of \$1,269,000 compared to \$684,000 at December 31, 2007. Management believes that additional financing will be needed to fund ongoing expenses as required for its mineral property agreements and its general and administrative activities for the current exploration season, including additional funds for the Nueva Galicia, San Pedro Analco, Dos Amigos, Rosamorada, Bonanza and La Lupe option agreements in Mexico and for the continued exploration of the Montana properties including Orogrande property.

## **CAPITAL RESOURCES AND COMMITMENTS**

The Company is a party to several option agreements on properties, under those agreements the Company expects to fulfill the following cash or share commitments during the next fiscal year:

	Issue Shares	Cash Payments	Complete Exploration Expenditures
Nueva Galicia 7 July 2008	75,000	70,000	400,000
Dos Amigos 15 August 2008		125,000	50,000
San Pedro Analco 11 July 2008	25,000	125,000	250,000
Rosamorada 15 August 2008		100,000	100,000
Bonanza 03 June 2008		50,000	
3 December 2008		50,000	
La Lupe 03 June 2008		70,000	
3 December 2008		120,000	
<b>Total</b>	<b>100,000</b>	<b>\$ 522,000</b>	<b>\$ 800,000</b>

The Company has an agreement, with Delbert W. Steiner, President and Director, which calls for monthly payments of \$7,000 and a term of five years to 1 March 2011. This contract may be cancelled upon the Company providing six months advance notice.

It will be necessary for the Company to arrange for additional financing to meet its ongoing exploration and overhead requirements.

Management believes it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. Although the Company successfully completed three financings in 2007, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company had no off-balance sheet arrangements as at December 31, 2007 and as at the date hereof.

## **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 \$21,000 (2007 - \$15,000) to a director in his capacity of chief executive officer.
- b) The Company paid salaries of \$7,500 (2007 - \$5,400) to an officer of the Company in the capacity of chief financial officer.
- c) Included in accounts payable is \$3,667 (2007 - \$30,515) owing to directors.
- d) The Company incurred \$3,354 (2007 - \$3,851) of interest on notes payable to directors

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.

## **CHANGES IN ACCOUNTING POLICIES**

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

**Section 3855 – Financial Instruments – Recognition and Measurement.** Section 3855 requires that all financial assets, except those classified as held to maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at cost. Investments classified as available for sale are reported at fair market value (or mark to market) based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss. Investments subject to significant influence are reported at cost and not adjusted to fair market value. The adoption of Section 3855 had no impact on the opening equity and the current period losses or comprehensive losses of the Company.

**Section 1530 – Comprehensive Income.** Comprehensive Income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available for sale securities which are not included in net income (loss) until realized.

During the 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.

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 annual reporting period 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 annual reporting period 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.

**FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, due to related parties and notes payable. The Company maintains most of its cash in Canadian dollars. However, amounts are converted into U.S. dollars and Mexican pesos and are therefore subject to changes in fair value due to fluctuations in exchange rates. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

**DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Consistent with other companies in the mineral exploration industry, Premium has no source of operating revenue. The Company's December 31, 2007 consolidated financial statements provide a breakdown of the general and administrative expenses for the year under review (Statement 2) and an analysis of the capitalized and expensed exploration and development costs incurred on its mineral properties (Schedule and Note 5).

**OUTSTANDING SHARES**

As at March 31, 2008, the Company had 35,792,960 common shares issued and outstanding versus 31,762,593 common shares issued and outstanding at December 31, 2007. The increase The exercise of warrants and options during the quarter.

Issued and diluted shares outstanding as at the date hereof are 35,899,553. The increase from March 31, 2008 reflects the exercise of 107,500 options.

**INVESTOR RELATIONS ACTIVITIES**

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

**MANAGEMENT**

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

**SUBSEQUENT EVENTS**

On 07 April 2008, the Company granted 150,000 stock options to a director for 5 years, to 15 April 2013 at \$0.33 per share.

On 02 May 2008, the Company granted 500,000 stock options to directors officers and consultants for 5 years, to 02 May 2013 at \$0.30 per share.

**RISK FACTORS**

Companies operating in the mining industry face many and varied kinds of risks. While risk management cannot eliminate the impact of all potential risks, the Company strives to manage such risks to the extent possible and practical. Following are the risk factors most applicable to the Company:

Exploring and developing mineral resource projects bears a high potential for all manner of risks. Additionally, few exploration projects successfully achieve development due to factors that cannot be predicted or foreseen. Moreover, even one such factor may result in the economic viability of a project being detrimentally impacted such that it is neither feasible nor practical to proceed. The Company

closely monitors its activities and those factors that could impact them, and employs experienced consulting, engineering, insurance and legal advisors to assist in its risk management reviews.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

At present the principal activity of the Company is the exploration and development of gold, silver and PGM resource properties. The feasible development of such properties is highly dependent upon the price of the gold, silver and PGM commodities. A sustained and substantial decline in these commodity prices could result in the write-down, termination of exploration and development work or loss of its interests in identified resource properties. Although such prices cannot be forecasted with certainty, the Company carefully monitors factors that could affect these commodity prices in order to assess the feasibility of its resource projects.

Exploration and development projects are subject to the environmental laws and regulations of the country within which the Company is conducting its operations. As such laws are subject to change, the Company carefully monitors proposed and potential changes, and ensures that it is and will be in strict compliance.

Various non-governmental organizations dedicated to environmental protection monitor, amongst others, the mining industry. These organizations have in the past commenced actions with the regulatory agencies or the courts to prevent or delay mining activities.

#### **APPROVAL**

The Board of Directors of the Company has approved the disclosure contained in this Annual Management Discussion and Analysis.

Respectfully submitted  
On Behalf of the Board of Directors

*"Delbert W. Steiner"*

Delbert W. Steiner  
President