

PREMIUM EXPLORATION INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**30 June 2008
(Unaudited)**

MANAGEMENT COMMENT

These interim consolidated financial statements for the six months ended 30 June 2008 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**(Unaudited)**

U.S. Funds

	As at 30 June 2008	As at 31 December 2007
ASSETS		
Current		
Cash	\$ 570,138	684,203
Receivables	234,640	196,545
Other	47,496	31,261
	852,274	912,009
Resource Properties - Schedule (Note 5)	2,994,598	2,199,607
Property, Plant and Equipment (Note 6)	276,499	297,113
	\$ 4,123,371	3,408,729
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 185,797	245,299
Notes payable (Note 7)	190,076	193,904
	375,873	439,203
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	6,778,851	4,734,079
Share Purchase Warrants (Note 8)	205,198	559,482
Contributed Surplus (Note 8)	973,603	745,019
Accumulated Other Comprehensive Income (Loss) (Note 3c)	217,070	312,858
Deficit - (Statement 2)	(4,427,224)	(3,381,912)
	3,747,498	2,969,526
	\$ 4,123,371	3,408,729

Going Concern (Note 2)
Subsequent Events (Note 14)

ON BEHALF OF THE BOARD:

Delbert Steiner, Director

Salvador Huerta, Director

**Interim Consolidated Statements of Loss, Comprehensive
Loss, Deficit and Accumulated Other Comprehensive Income (Loss)
(Unaudited)**

U.S. Funds

	Three Months Ended 30 June		Six Months Ended 30 June	
	2008	2007	2008	2007
Expenses (Income)				
Stock-based compensation	158,367	181,302	\$ 294,553	302,587
Shareholder relations	97,019	69,389	248,966	108,558
Travel	36,103	36,974	94,035	66,261
Wages, fees and benefits	90,383	50,646	152,929	99,448
Professional fees	57,641	50,542	117,604	58,767
Foreign exchange (gain) loss	(203,979)	120,718	(200,873)	78,458
Office and general	42,171	25,100	69,875	33,253
General exploration	54,134	21,069	124,075	21,069
Office rent	16,892	11,996	36,698	25,122
Amortization	17,120	1,716	30,903	10,208
Write off of mineral properties	53,549		53,549	
Transfer agent and filing fees	9,764	10,517	10,262	18,913
Bank charges and interest	5,864	10,718	21,192	14,568
Interest income	(2,847)	(2,737)	(8,456)	(10,494)
Loss for the Period	(432,181)	(587,950)	(1,045,312)	(926,718)
Deficit - Beginning of period	(3,995,043)	(1,520,950)	(3,381,912)	(1,282,067)
Deficit, End of Period	(4,427,224)	(2,108,785)	(4,427,224)	(2,108,785)
Loss per Share - Basic and Diluted	(0.01)	(0.02)	\$ (0.03)	(0.04)
Weighted Average Number of Shares Outstanding	35,843,749	24,147,853	33,326,621	21,816,073
Loss for the period	(432,181)	(587,950)	(1,045,312)	(926,718)
Other Comprehensive Income (Loss)				
Translation adjustment	9,069	195,894	(99,788)	126,613
Comprehensive Income (loss) for the Period	(423,112)	(392,056)	\$ (1,145,100)	(800,105)
Accumulated Other Comprehensive Income (Loss) Beginning of period (Note 3 c))	208,001	(70,817)	\$ 312,858	(1,536)
Translation adjustment	9,069	195,894	(99,788)	126,613
Accumulated Other Comprehensive Income end of Period	217,070	125,077	\$ 217,070	125,077

- See Accompanying Notes -

Interim Consolidated Statements of Cash Flows (Unaudited)

U.S. Funds

	Three Months Ended 30 June		Six Months Ended 30 June	
	2008	2007	2008	2007
Operating Activities				
Loss for the year	(432,181)	(587,950)	\$ (1,045,312)	(826,718)
Items not affecting cash				
Amortization	17,120	9,620	30,903	18,112
Write-off resource property costs	53,549	-	50,549	-
Unrealized foreign exchange	11,343	-	(60,978)	-
Stock-based compensation	158,367	181,302	294,553	302,587
	(191,802)	(397,028)	(727,847)	(506,019)
Net Change in non-cash working capital	(4,353)	(38,868)	(113,832)	(173,097)
	(196,158)	(435,896)	(841,120)	(679,116)
Investing Activities				
Property, plant and equipment acquired	(17,955)	-	(14,659)	(204,167)
Resource property expenditures	(408,544)	(453,045)	(759,132)	(645,236)
	(426,499)	(453,045)	(773,791)	(849,403)
Financing Activities				
Shares issued for cash	4,026	593,825	1,600,647	1,045,259
Share purchase warrants issued for cash	-	25,296	-	244,490
Unit offering issuance costs	-	(29,842)	-	(41,019)
Repayment of notes payable	(10)	(853)	(3,828)	(9,143)
	4,016	588,426	1,596,819	1,239,587
Effect of Exchange Rates on Cash	(80,417)	202,693	(95,973)	128,166
Net Increase in Cash	(699,058)	(97,822)	(114,065)	(160,766)
Cash position – Beginning of period	1,269,196	376,346	684,203	439,290
Cash Position – End of Period	570,138	278,524	\$ 570,138	278,524
Supplemental Disclosure of Non-Cash Investing and Financing				
Shares issued for mineral property acquisition	-	-	\$ 35,859	-
Fair value transfers on exercise of options	42,662	-	\$ 54,252	-

- See Accompanying Notes -

Interim Consolidated Schedule of Resource Property Costs

30 June 2008

U.S. Funds

	Acquisition	Deferred Exploration	2008 Unaudited	2007 Unaudited
Chrome Mountain Property, U.S.A.				
Assaying	\$ -	\$ -	\$ -	\$ 59,323
Field transportation	-	-	-	3,709
General	-	-	-	4,760
Unrealized currency adjustment	(6,597)	(5,712)	(12,309)	5,669
	<u>(6,597)</u>	<u>(5,712)</u>	<u>(12,309)</u>	<u>73,461</u>
Idaho Gold Properties, U.S.A.				
Acquisition	43,596	-	43,596	-
Assaying	-	11,140	11,140	-
Claim fees	-	17,638	17,638	-
Geological	-	120,538	120,538	-
General	-	17,325	17,325	-
Unrealized currency adjustment	(4,276)	(925)	(5,201)	-
	<u>39,320</u>	<u>165,716</u>	<u>205,036</u>	<u>-</u>
Total costs for the year U.S.A. Properties	<u>32,723</u>	<u>160,004</u>	<u>192,727</u>	<u>73,461</u>
Cucurpe Property, Sonora, Mexico				
General	-	-	-	152
Staking, filing and concession fees	-	8,190	8,190	1,821
Unrealized translation adjustment	(2,411)	(1,723)	(4,134)	1,462
	<u>(2,411)</u>	<u>6,467</u>	<u>4,056</u>	<u>3,435</u>
Nueva Galicia Property, Nayarit, Mexico				
Acquisition	80,729	-	80,729	32,261
Drilling	-	273,364	273,364	-
Field management	-	23,908	23,908	4,729
Field transportation	-	28,945	28,945	15,340
General	-	33,587	33,587	23,626
Geochemical	-	28,937	28,937	3,175
Geological	-	75,190	75,190	21,581
Staking, filing and concession fees	-	10,292	10,292	13,367
Surface access	-	14,024	14,024	-
Survey	-	2,741	2,741	-
Unrealized currency adjustment	(6,735)	(27,603)	(34,338)	1,408
	<u>73,994</u>	<u>462,575</u>	<u>536,569</u>	<u>115,487</u>
Guadalupe Property, Jalisco, Mexico				
Unrealized currency adjustment	-	-	-	55
	<u>-</u>	<u>-</u>	<u>-</u>	<u>55</u>
Dos Amigos Property, Nayarit, Mexico				
General	-	190	190	-
Geological	-	902	902	-
Staking, filing and concession fees	-	24	24	-
Write off of mineral properties	(21,596)	(33,521)	55,117	-
Unrealized currency adjustment	(427)	(410)	(837)	10
	<u>(22,023)</u>	<u>(32,815)</u>	<u>(54,838)</u>	<u>10</u>

- See Accompanying Notes -

Interim Consolidated Schedule of Resource Property Costs

30 June 2008

U.S. Funds

	Acquisition	Deferred Exploration	2008 Unaudited	2007 Unaudited
San Pedro Anasco Property, Jalisco, Mexico				
Acquisition	58,970	-	58,970	-
Field transportation	-	87	87	13,768
General	-	2,577	2,577	58,927
Geological	-	18,033	18,033	-
Field Management	-	6,569	6,569	-
Staking, filing and concession fees	-	743	743	-
Unrealized currency adjustment	(3,159)	(1,693)	(4,852)	58
	55,811	26,316	82,127	72,753
Rosamorada				
Acquisition	1,120	-	1,120	-
Drilling	-	163	163	-
Field management	-	1,882	1,882	-
Field transport	-	4,298	4,298	-
General	-	1,768	1,768	-
Geochemical	-	169	169	-
Geological	-	5,249	5,249	-
Staking, filing and concession fees	-	262	262	-
Surface access	-	4,209	4,209	-
Survey	-	1,947	1,947	-
Unrealized currency adjustment	(1,220)	(781)	(2,001)	-
	(100)	19,166	19,066	-
Bonanza				
Geological	-	5,152	5,152	-
General	-	190	190	-
Field Management	-	1,855	1,855	-
Staking, filing and concession fees	-	719	719	-
Surveying	-	783	783	-
Unrealized currency adjustment	(298)	(601)	(899)	-
	(298)	8,098	7,800	-
La Lupe				
Field Management	-	1,855	1,855	-
Geological	-	5,152	5,152	-
Staking, filing and concession fees	-	2,544	2,544	-
Surveying	-	783	783	-
Unrealized currency adjustment	(2,363)	(487)	(2,580)	-
	(2,363)	9,847	7,484	-
Total Period costs Mexican Properties	124,206	478,058	602,264	191,730
Total Costs for the Period	156,929	638,062	794,991	265,191
Balance - Beginning of period	948,615	1,250,992	2,199,607	826,551
Balance – End of Period	\$ 1,105,544	1,889,054	2,994,598	\$ 1,091,742

- See Accompanying Notes -

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Six Months Ended 30 June 2008

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 30 June 2008, the Company has an accumulated deficit of \$4,390,631 (31 December 2007 - \$3,381,912), 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. 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, 2007. 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 30 June 2008 are not necessarily indicative of the results that may be expected for the full year ending 31 December 2008. These unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements and related footnotes for the year ended 31 December 2007.

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 Six Months Ended 30 June 2008

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) 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.

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.

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Six Months Ended 30 June 2008

4. Resource Properties

a) Details of cumulative expenditures are as follows:

	Acquisition	Exploration	June 30, 2008
Mineral Properties			
Chrome Mountain Property, U.S.A. (Notes 5b)	\$ 245,791	212,868	\$ 458,659
Idaho Gold Properties, USA (Note 5c)	186,117	171,412	357,529
Cucurpe Property, Sonora, Mexico (Note 5d)	-	205,410	205,410
Nueva Galicia Property, Nayarit, Mexico (Note 5e)	305,866	1,185,677	1,491,543
Dos Amigos Property, Nayarit, Mexico (Note 5f)	-	-	-
San Pedro de Analco Property, Jalisco, Mexico (Note 5g)	134,440	73,662	208,102
Rosamorada Property, Nayarit, Mexico (Note 5h)	61,162	31,040	92,202
Bonanza Property, Guanajuato, Mexico (Note 5i)	57,907	26,630	84,537
La Lupe Property, Durango, Mexico (Note 5j)	76,397	20,219	96,616
	<u>\$ 1,067,680</u>	<u>1,926,918</u>	<u>2,994,598</u>

	Acquisition	Exploration	December 31, 2007
Mineral Properties			
Chrome Mountain Properties, U.S.A. (Notes 5b)	\$ 252,388	218,580	\$ 470,968
Idaho Gold Properties, 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 5f)	22,023	32,815	54,838
San Pedro de Analco Property, Jalisco, Mexico (Note 5g)	78,629	47,346	125,975
Rosamorada Property, Nayarit, Mexico (Note 5h)	61,262	11,874	73,136
Bonanza Property, Guanajuato, Mexico (Note 5i)	58,205	18,532	76,737
La Lupe Property, Durango, Mexico (Note 5j)	78,757	10,372	89,129
	<u>\$ 929,933</u>	<u>1,269,671</u>	<u>2,199,604</u>

b) Chrome Mountain Property, 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 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.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Six Months Ended 30 June 2008

- 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) Idaho Gold Properties, 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 ("Orogrande") 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 Orogrande, 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.
- Assumption of all other obligations of Clearwater under various agreements with third party property vendors for Orogrande.
- 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 Orogrande 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 Orogrande 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.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Six Months Ended 30 June 2008

5. Resource Properties – continued

e) Nueva Galicia Property, Nayarit, Mexico

By an exploration agreement 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	(v)
7 January 2008	50,000	(iv)	60,000	(paid)	150,000	(v)
7 July 2008	75,000	(vi)	70,000	(vi)	400,000	(v)
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 at fair value \$10,091
- (iv) Issued at fair value \$27,376
- (v) Complete
- (vi) Issued and paid subsequently

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) 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
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.

During the period ended 30 June 2008 the Company abandoned this property and recorded a write down on mineral properties of \$53,549.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Six Months Ended 30 June 2008

5. Resource Properties – continued

g) San Pedro Anlco 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:

	Issue Shares from Treasury		Cash Payments	
11 January 2007	10,000	(i)\$	25,000	(ii)\$
11 July 2007	15,000	(i)	50,000	(ii)
11 January 2008	15,000	(iv)	50,000	(ii)
11 January 2009	25,000		125,000	
11 July 2009	25,000		125,000	
11 January 2010	80,000		250,000	
11 July 2010	80,000		250,000	
Total	250,000	\$	875,000	\$
	(i)	Issued		
	(ii)	Paid		
	(iii)	Complete		
	(iv)	Issued at fair value \$8,213		

h) 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.

i) 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	(i) 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.

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Six Months Ended 30 June 2008

j) 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	(i)	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.

6. Property, Plant and Equipment

Details are as follows:

30 June 2008	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 119,786	33,234	\$ 86,552
Field equipment	254,356	64,409	189,947
	\$ 374,142	97,643	\$ 276,499

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
	\$ 359,483	62,370	\$ 297,113

7. Notes Payable

Details are as follows:

	30 June 2008	31 December 2007
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	16,816	20,644
Delbert Steiner, a director, promissory note payable, unsecured, bears interest at 8% per annum and repayable on demand	106,260	106,260
Barney Green Lee, a director, promissory note payable, unsecured, bears interest at 8% per annum and repayable on demand	47,000	47,000
	190,076	193,904
Current portion	190,076	193,904
	\$ -	\$ -

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Six Months Ended 30 June 2008

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 2006	20,764,303	\$ 1,727,317	4,670,000	\$ 378,592
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)
Balance – 31 December 2007	<u>31,762,593</u>	<u>\$ 4,734,079</u>	<u>6,456,960</u>	<u>\$ 559,482</u>
Issuance of shares for property	65,000	35,589	-	-
Issuance of shares exercise of options	237,500	52,682	-	-
Issuance of shares on warrant exercise	3,926,960	1,547,966	-	-
Fair value transfer on exercise of options	-	54,252	-	-
Expired warrants	-	-	(159,000)	-
Fair value transfer on exercise of warrants	-	354,284	(3,926,960)	(354,284)
Balance – 31 December 2007	<u>35,992,053</u>	<u>\$ 6,778,851</u>	<u>2,371,000</u>	<u>\$ 205,198</u>

(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 Interim Consolidated Financial Statements

U.S. Funds

For the Six Months Ended 30 June 2008

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 30 June 2008, 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.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Six Months Ended 30 June 2008

8. Share Capital - *continued*

Stock option activity during the period is summarized as follows:

	2008	Weighted Average Exercise Price
Balance - beginning of year	4,880,000	Cdn\$0.28
Granted	950,000	0.42
Exercised	(237,500)	0.22
Expired / Cancelled	(1,125,000)	0.31
Balance – end of year	4,467,500	Cdn\$0.30

Details of stock options outstanding as at 30 June are as follows:

Expiry Date	Exercise Price	2008	2007
1 March 2011	Cdn\$ \$ 0.30	600,000	600,000
15 November 2011	Cdn\$ \$ 0.20	300,000	750,000
5 March 2012	Cdn\$ \$ 0.23	1,250,000	1,500,000
24 April 2012	Cdn\$ \$ 0.35	200,000	200,000
24 April 2012	Cdn\$ \$ 0.40	130,000	130,000
24 April 2012	Cdn\$ \$ 0.30	-	300,000
24 October 2012	Cdn\$ \$ 0.35	1,137,500	1,400,000
15 February 2013	Cdn\$ \$ 0.66	200,000	-
07 April 2013	Cdn\$ \$ 0.33	150,000	-
02 May 2013	Cdn\$ \$ 0.30	500,000	-
		<u>4,467,500</u>	<u>4,880,000</u>

The outstanding options have a weighted-average exercise price of Cdn\$0.31 and the weighted-average remaining life of the options is 3.93 years. As at 30 June 2008, a total of 2,848,750 (31 December 2007 – 3,289,375) of these outstanding options had vested.

The Company used the Black-Scholes model to value the options using an estimated volatility of 64% (2007 – 100%), an estimated risk-free rate of 3.90% (2007 – 4.25% - 4.10%), an estimated dividend rate of 0.00 % (2007 – 0.00%) and an estimated life of the options of 5 years (2007 - 5 years).

d) Warrants

	2007
Balance - beginning of period	6,456,960
Expired	(159,000)
Exercised	(3,926,960)
Balance – end of year	<u>2,371,000</u>

A summary of outstanding is as follows:

	Price	Expiry	Number of Warrants (i)
Issued - 3 June 2007	C\$0.50	15 June 2008	748,375
Issued - 22 August 2007	C\$0.50	22 August 2008	1,622,625
Balance – 30 June 2008			<u>2,371,000</u>

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

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Six Months Ended 30 June 2008

8. Share Capital - *continued*

e) Stock-based compensation

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

	2008	2007
Total options granted	950,000	1,500,000
Average exercise price (in Cdn\$)	0.42	0.23
Estimated fair value of compensation	214,448	262,722
Estimated fair value per option	\$0.23	\$0.17

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:

	2008	2007
Risk-free interest rate	3.64%	3.95%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	60%	100.00%
Expected option life in years	5.00	5.00

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:

	2008	2007
Balance - beginning of year	\$ 745,019	\$ 168,410
Stock-based compensation	282,836	121,285
Fair value of stock options exercised	(54,252)	
Balance - end of year	\$ 973,603	\$ 284,291

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 \$42,000 (2007 - \$30,000) to a director in his capacity of chief executive officer.
- b) The Company paid salaries of \$18,000 (2007 - \$Nil) to an officer of the Company in the capacity of chief financial officer.
- d) The Company incurred \$6,000 (2007 - \$9,719) 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.

10. Segmented Disclosure

30 June, 2008	Capital Assets
Canada	25,000
United States	992,000
Mexico	2,254,000
Total	3,271,000
31 December 2007	Capital

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

U.S. Funds

For the Six Months Ended 30 June 2008

	Assets
Canada	\$ 25,797
United States	768,433
Mexico	1,702,490
Total	\$ 2,496,720

11. 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 30 June 2008 the Company held currency totalling Cdn\$541,000; US\$8,000; and Pesos\$347,000, 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.

12. Subsequent Events

On 20 August 2008 Premium completed a non-brokered private placement of 3,400,166 units (each, a "Unit") of the Company at a price of \$0.30 per Unit for aggregate proceeds of \$1,020,050.

Each Unit consisted of one common share of the Company and one common share purchase warrant ("Warrant") of the Company. Each Warrant is exercisable for a period of two years at an exercise price of \$0.50 in the first year and \$0.75 in the second year.

In addition, the Company has paid finders' fees of \$70,538.50 in cash.

The proceeds from the private placement will be used for production permitting on Buffalo Gulch, exploration drilling, property evaluations, acquisitions and staking.