

**PREMIUM EXPLORATION INC.**  
**Report to Shareholders and**  
**Management Discussion and Analysis**  
**Of the Financial Position and Results of Operations**  
**For the Six Months Ended June 30, 2008**

**August 28, 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 June 30, 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 June 30, 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 pre-production 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 and is currently in its second year of the agreement.

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

- April 7<sup>th</sup>, 2008, the Company announced the appointment of Mr. Salvador Huerta to its Board of Directors. Mr. Huerta brings significant international business and financial expertise in joint ventures, mergers and acquisitions.
- April 7<sup>th</sup>, 2008, The Company announced the resignation of Nancy Reardon as Chief Operating Officer and VP, Exploration.
- April 24<sup>th</sup>, 2008, the Company announced two drills were on site and waiting to commence drilling on the Nueva Galicia property. The drill program is intended to complete the balance of 1,300m of the original 2,000 m drill program. The geophysics program was completed and the Company was awaiting the results of the program.
- April 24<sup>th</sup>, 2008, Mr. Barney Green Lee Portillo, a Director of Premium Exploration, Inc. is appointed as the VP, Mining Development-Mexico.
- May 2<sup>nd</sup>, 2008, the Company granted 500,000 stock options to directors and consultants of the Company. The options are exercisable for a period of 5 years at an exercise price of \$0.30 per share.
- May 2<sup>nd</sup>, 2008, the Company announced the appointment of Mr. Robert Komarechka, P.Geo., P.Geol., to its Board of Directors. Mr. Komarechka has extensive experience in mining and exploration activities including mine management, airborne and ground geophysics and NI-43-101 submissions.
- May 7<sup>th</sup>, 2008, the Company and its joint venture partner, Elk City Mining, provided an update on the permitting process for the Buffalo Gulch Mine.
- May 15<sup>th</sup>, 2008, Premium announces a review of the chromite values on its Chrome Mountain property in Montana, USA.
- May 16<sup>th</sup>, 2008, the Company announces the resignation of Robert McLeod from the Board of Directors.
- May 22<sup>nd</sup>, 2008, the Company announces that it has received United States Forest Service approval for its 10,000 ft drill program, operated by Beartooth Platinum Corp., the Company's joint venture partner.
- June 5<sup>th</sup>, 2008, the Company announces the staking of 110 quartz lode mining claims that covers the balance of the heart of the Central Orogrande Shear Zone in Idaho, USA.
- June 12<sup>th</sup>, 2008, the Company provides a drilling update and identification of a new zone at alacran, nueva Galicia, Mexico.
- June 19<sup>th</sup>, 2008, the Company announced the resignation of Vanessa Bachman from her position as Chief Financial Officer and announced the appointment of Grant T. Smith as Chief Financial Officer.
- June 20<sup>th</sup>, 2008, the Company extends the term for exercise of warrants issued on August 22, 2008 to November 22, 2008.

## **MINERAL EXPLORATION**

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

The Chrome Mountain Project is a platinum, palladium, rhodium and gold target consisting of 970 hectares and located approximately 1,500m from the East Boulder Mine within the Stillwater Complex. The property is currently in its second year of a Joint Venture agreement with Beartooth Platinum Corporation (BTP). Drilling on the property is being conducted by BTP who has the right to earn a 50% interest in the property by spending \$3,000,000 on exploration over three years at \$1,000,000 per year. The Pine Claim Shear Zone is excluded from the agreement.

In April of 2008, assays were resubmitted for rhodium and ruthenium testing and Premium is awaiting the results. Due to the high demand and increase in Chromite prices, Premium will conduct additional exploration geared to chromites.

Exploration activities for the 2008 field season were approved by the United States Forest Service for a 10,000 ft, 40 drill site drill program operated by Beartooth Platinum. The drill program will be located on the north-western portion of the Stillwater Complex and will consist of 10 to 15 NQ core holes. The drill program is designed to test what the Company believes to be a potential "Feeder Zone" for the previously unknown style of PGM mineralization, as well as the high-grade chromite area of the PGM anomaly. Drilling will target a combination of two styles of South African PGM mineralization combined in the same envelope of disseminated chromite. In addition, this drill program is designed to further understand and define the boundaries of the platinum, palladium and gold mineralization of Premium's PGM geochemical anomaly and information accumulated in the 2007 drill program, which suggested the identification of a feeder zone. All holes in the 2007 Drill Program began immediately in mineralization and the majority of the holes terminated in mineralization.

In addition, the 2008 Drill Program will delineate the mineralization encountered last year and will also test additional geochemical and geophysical anomalies located near Chrome Mountain.

### ***Orogrande Shear Zone – Idaho, USA***

The Orogrande Shear Zone is a gold mineralization belt 28 km long in strike length and hosts many of the 219 mapped prospects which make up "Elk City Gold Belt". This includes at least 13 minor historic producers from the early 20th century. Extensive placer mining has taken place along the streams which parallel and cross the Orogrande Shear Zone which is comprised of the following three sections: the North Orogrande Shear Zone, the South Orogrande Shear Zone and the Central Orogrande Shear Zone. The Company conducted an extensive review of all available exploration data and believes that the Orogrande Shear Zone is the mineralizing conduit for the entire 28 km strike length of the geologic structure. A \$4,000,000 preliminary drill program has been prepared which will test each of the three sections. The drill program is expected to extend over a two year period.

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

The Buffalo Gulch Property is comprised of 107 unpatented quartz lode mining claims and is under a Letter of Intent to Joint Venture with the Clearwater Mining Corporation to explore and develop the property. The property is in the process of being re-permitted for production. Several public meetings have been held near the project area to initiate scoping process and to inform the public and regulatory agencies of the project.

A 500 sample soil geochemical program was completed in the fall of 2007 and was designed to delineate the southern extent of the gold mineralization on the Buffalo Gulch property. The soil sampling is being evaluated and 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.

The preliminary drill plan for Buffalo Gulch will include 17 holes totalling 3,700 meters. Drilling is designed to test mineralization below the currently defined Buffalo Gulch deposit as well as along strike.

### ***Central Orogrande Shear Zone, Idaho USA***

In June, 2008, Premium staked an additional 110 claims covering the Central Orogrande Shear Zone. The Central Orogrande Shear Zone is located between the Company's Buffalo Gulch Joint Venture property on the northern extension of the shear zone and the Friday/Petsite NI-43-101 property on the southern extension of the shear zone.

The preliminary drill plan for the Central Orogrande Shear Zone will include 8 holes totalling 1,700 meters. Drilling on the Central Orogrande Shear Zone is designed to intersect the Orogrande Shear Zone in the area as delineated by past soil geochemistry surveys over a 6 km strike length. The drill program is subject to the permitting applications which are currently being processed.

### ***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. The project is open to the north and south along strike and at depth. Premium's review of the historical exploration data of this disseminated gold deposit, 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. Premium has completed a 150 sample soil campaign and results are being evaluated. The northern end of the property is currently being mapped and will extend the anomaly to the north.

The proposed drilling on this zone includes 15 drill holes totalling approximately 3,700 meters on the Friday property. Drilling is designed to intersect the Orogrande Shear Zone and delineate mineralization down dip and along strike from gold mineralization encountered in past drill programs.

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

During the second quarter of 2008, Premium resumed drilling on the property and reached the approximate halfway point (937m) with 16 holes completed and two holes in process. The drill program was designed to delineate mineralization along strike and down dip from five separate zones: Buenos Aires, Tajitos, Alacran, Lluvia de Oro and San Mateo.

Geologists on Nueva Galicia have identified three parallel structures over 10 km of strike length. The structures host five mineralized zones (high-grade silver-gold ore shoots) identified at surface by 10 high-grade, silver-gold ore shoots exposed at surface. Within the five zones are 21 historic adits and numerous shafts and pits that were mined by the Colonial Spaniards in the 1,500's. Previous work indicated that one of the ore shoots, Tajitos, was developed over five levels covering 120m of vertical depth and historically produced 150,000 ounces of gold equivalent (ratio 60:1).

Two of the zones drilled, Buenos Aires and La Cholita returned the following results:

Buenos Aires    NG-07-001: 7.84 g/t Au, 814 g/t Ag over 2.6m starting 24.70m depth  
                      NG-07-002: 2.32 g/t Au, 226 g/t Ag over 4.0m starting at 37.12m depth

La Cholita: NG-07-013: 8.79 g/t Au, 1309.7 g/t Ag over 1.52m starting at 18.9m depth,  
Including 18.1 g/t gold and 3327 g/t silver over 0.56m  
NG-07-012: 10.2 g/t Au, 309.8 g/t Ag over 2.8m starting at 12.6m depth

Drilling at a third zone, Alacran, showed results beyond the principal structure. Premium's geologists continued the drilling and large zone was intersected between 90.53m and 100.87m depth. This secondary zone at depth may be interpreted as splays related to mineralization observed on surface. Additional splays of massive quartz veining and stockwork were observed to a depth of 114m. Further drilling in the area is ongoing to test the extent and geometry of the mineralized zones encountered both at depth and near surface.

The drill program was suspended due to inclement weather and the addition of new geological staff. Mapping and sampling to date has been completed on approximately 10% of the property. The Company is encouraged by the high-grade drill results to date and a detailed geophysics program has been designed to further identify structures and drill targets.

### ***Bonanza, Guanajuato, Mexico***

Premium has executed an option to acquire 100% of the Bonanza Gold Property, located in Guanajuato State, central Mexico. With this option, Premium has acquired the right to purchase 599 hectares from the property vendor. In addition, Premium has staked new claims covering approximately 9,045 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 Company continues an exploration program of mapping, sampling and trenching to identify drill targets.

### ***Cucurpe, Sonora, Mexico***

Premium currently controls 12 exploration concessions in the area. Exploration is not currently being carried out on this property, as the Company's current focus in Mexico is on the Nueva Galicia property.

### ***Dos Amigos***

The Dos Amigos property is currently under evaluation by the Company, but is not being actively explored at this time. The Company expects to complete the initial analysis within the first nine 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, surface sampling and trenching is underway to identify structures. The property package is being expanded and an office has been established in Durango to accommodate the crew.

### ***Rosamorada, Nayarit, Mexico***

The Rosamorada property is located in Nayarit State, west central Mexico and consists of 300 hectares. A 500 meter trenching program has been completed and results are being analysed. 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 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. A preliminary drill plan is being prepared to test the extent of the existing resource.

### **Results of Operations**

The loss for the six month period ended 30 June 2008 was \$1,045,312, which compares to a loss of \$926,718 in same period of 2007. The main fluctuations in costs are as follows:

- Shareholders relations expense of \$248,000 (2007 – 109,000) the increase is primarily a result of the expansion and growth of the Company, which included hiring two full-time corporate communications staff in-house.
- Travel expense of 94,000 (2007 – 66,000) resulting from the increased activity in Mexico in accordance with our growth and attendance at various promotional shows
- Management Fees of \$153,000 (2007 – 99,000) from the necessary increases relating operating a larger more active Company, actively operating in Canada, United States and Mexico.
- Professional fees of 118,000 (2007 – 59,000) relating to the increased legal and audit costs of the current reporting atmosphere.

The loss for the three month period ended 30 June 2008 was \$432,181, which compares to a loss of \$587,950 in same period of 2007. The main fluctuations in costs are as follows:

- Stock based Compensation is down slightly \$181,000 in the prior year to \$158,000 or \$23,000 this is primarily a result of a significant tranche of options being issued in the prior year.
- Shareholders relations expense of \$97,000 (2007 – 69,000) the increase is in the normal course of operations and on track with expectations.
- Wages and fees are up \$40,000 in the three months, from \$50,000 in the prior year as a result of increases in demands as the company grows
- The increasing demands for office space and equipment have caused the increase in office supplies from \$25,000 to \$42,000
- General exploration costs have continued to grow as the Company investigates further opportunities.
- Office rent is up by 40% to 17,000 as the company has expanded to take over shared previously spaces.

### **SUMMARY OF QUARTERLY RESULTS**

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

Three Months Ended	June-08	Mar-08	Dec-07	Sep-07	Jun-07	Mar-07 Restated	Dec-06	Sep-06
Total Revenues	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Loss from continuing operations	\$432,181	\$613,131	723,667	549,460	587,950	\$238,768	\$322,125	\$445,596
Loss for the period	\$432,181	\$613,131	723,667	549,460	587,950	\$238,768	\$322,125	\$445,596
Loss per share	\$(0.01)	\$(0.02)	(0.03)	(0.02)	(0.02)	\$(0.01)	\$(0.02)	\$(0.02)

In the first quarter of fiscal 2007 the Company's calculation of stock-based compensation was incorrect. The correction of this error is summarized as follows:

Balance Sheet	March 31, 2007		March 31, 2007 As Restated
	As Previously Reported	Restatement	
Contributed Surplus	\$ 536,395	\$ (252,104)	\$ 284,291
Statements of Loss, Comprehensive Loss and Deficit			
Stock-based Compensation	\$ 373,389	\$ (252,104)	\$ 121,285
Net Loss for the Period	\$ (490,872)	\$ 252,104	\$ (238,768)
Deficit - Beginning of period	1,282,067	-	1,282,067
Deficit, End of Period	\$ 1,772,939	\$ (252,104)	\$ 1,520,835
Loss per share	\$ (0.02)	\$ 0.01	(0.01)

## **OUTSTANDING SHARES**

As at 30 June 2008, the Company had 35,992,053 common shares issued and outstanding versus 31,762,593 common shares issued and outstanding at December 31, 2007. The fully diluted amount of 42,830,553 represents options of 4,467,500 and warrants of 2,371,000

Issued and diluted shares outstanding as at the date hereof are 42,905,553. The increase of 75,000 represents shares issued for property.

## **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 \$476,000 as compared to a working capital of \$473,000 at December 31, 2007.

At 30 June 2008, the Company had cash on hand of \$570,000 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 Anasco, 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:

	Cash Payments	Complete Exploration Expenditures
Rosamorada 15 August 2008	100,000	100,000
Bonanza 3 December 2008	50,000	
La Lupe 3 December 2008	120,000	
Total	\$ 270,000	\$ 100,000

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 \$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.

### **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).

## **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 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.

## **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