



PREMIUM EXPLORATION INC.

CONSOLIDATED FINANCIAL STATEMENTS

**31 December 2008 and 2007
Stated in US Funds**

AUDITORS' REPORT

To the Shareholders of
Premium Exploration Inc.

We have audited the consolidated balance sheets of Premium Exploration Inc. as at December 31, 2008 and 2007 and the consolidated statements of loss, deficit, comprehensive loss and accumulated other comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 20, 2009



Consolidated Balance Sheets

As at 31 December

U.S. Funds

ASSETS	2008	2007 Restated (Note 3a)
Current		
Cash	\$ 119,452	\$ 684,203
Receivables	92,844	196,545
Other	38,978	31,261
	<u>251,274</u>	912,009
Resource Properties – (Restated Note 3a, 4)	245,791	247,414
Property, Plant and Equipment (Note 6)	214,712	297,113
	<u>\$ 711,777</u>	<u>\$ 1,456,536</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 498,076	\$ 245,299
Notes payable (Note 7)	213,281	193,904
	<u>711,357</u>	439,203
SHAREHOLDERS' EQUITY		
Share Capital (Note 8)	7,457,637	4,734,079
Share Purchase Warrants (Note 8)	370,833	559,482
Contributed Surplus (Note 8)	1,128,664	745,019
Accumulated Other Comprehensive Income (Loss)	10,419	203,182
Deficit - (Statement 2)	<u>(8,967,133)</u>	<u>(5,224,429)</u>
	420	1,017,333
	<u>\$ 711,777</u>	<u>\$ 1,456,536</u>

Going Concern (Note 2)

Subsequent Events (Note 14)

ON BEHALF OF THE BOARD:



 _____, Director



 _____, Director

Premium Exploration Inc.

Statement 1

Consolidated Balance Sheets

As at 31 December

U.S. Funds

- See Accompanying Notes -

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

For the Years Ended 31 December

U.S. Funds

	2008		2007 Restated (Note 3a)
Expenses			
Resource property expenditures	\$ 1,933,127	\$	1,377,358
Stock-based compensation	437,897		582,579
Shareholder relations	338,995		291,992
Management fees	246,313		229,059
Foreign exchange loss	215,916		112,375
Professional fees	159,962		187,138
Travel	126,084		275,897
Office and general	112,867		128,168
Amortization	75,674		53,573
Office rent	59,493		78,699
Transfer agent and filing fees	22,296		34,588
Interest expense	17,293		21,575
Bank charges	6,324		5,381
Interest income	(9,537)		(12,196)
Loss for the Year	(3,742,704)		(3,366,186)
Deficit - Beginning of Year	(5,224,429)		(1,858,243)
Deficit - End of Year	(8,967,133)		(5,224,429)
Loss per Share - Basic and Diluted	\$ (0.10)	\$	(0.13)
Weighted Average Number of Shares Outstanding	36,659,365		26,106,869
Loss for the Year	\$ (3,742,704)	\$	(3,366,183)
Other Comprehensive Income (Loss)			
Translation adjustment	(192,763)		263,584
Comprehensive Loss for the Year	\$ (3,935,467)	\$	(3,102,599)
Accumulated Other Comprehensive Income (Loss) at 1 January	\$ 203,182	\$	(59,908)
Translation adjustment	(192,763)		263,584
Accumulated Other Comprehensive Income at 31 December	\$ 10,419	\$	203,182

Consolidated Statements of Cash Flows

For the Years Ended 31 December

U.S. Funds

	2008	2007 Restated (Note 3a)
Operating Activities		
Loss for the year	\$ (3,742,704)	\$ (3,366,186)
Items not affecting cash:		
Amortization	75,674	53,573
Stock-based compensation	437,897	582,579
Shares issued for resource property expenditures	59,359	38,337
Unrealized foreign exchange	39,457	(18,448)
	<u>(3,130,317)</u>	<u>(2,710,145)</u>
Net Change in non-cash working capital	348,761	50,536
	<u>(2,781,556)</u>	<u>(2,659,609)</u>
Investing Activities		
Property, plant and equipment acquired	(31,107)	(296,186)
	<u>(31,107)</u>	<u>(296,186)</u>
Financing Activities		
Shares issued for cash	2,310,671	2,883,425
Share purchase warrants issued for cash	178,149	368,273
Unit offering issuance costs	(67,523)	(108,349)
Proceeds from notes payable	19,377	(5,322)
	<u>2,440,674</u>	<u>3,138,027</u>
Effect of Exchange Rates on Cash	<u>(192,762)</u>	<u>62,681</u>
Net Increase (Decrease) in Cash	<u>(564,751)</u>	<u>244,913</u>
Cash position - Beginning of Year	684,203	439,290
Cash Position - End of Year	<u>\$ 119,452</u>	<u>\$ 684,203</u>
Supplemental Disclosure of Non-Cash Investing and Financing		
Fair value transfers on exercise of warrants	354,284	190,875
Fair value transfers on exercise of options	54,252	5,970
Warrants issued for share issuance costs	-	19,081
Shares issued for finders fee	\$ -	\$ 75,800

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

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 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. The Company is listed 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 resource property expenditures 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 need to raise additional funds for future corporate and administrative expenses and to undertake further exploration and development of its mineral properties. There can be no assurance that the Company will be able to raise sufficient funds in the future.

2. Going Concern

These financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at 31 December 2008, the Company has an accumulated deficit of \$9,159,133 (2007 - \$5,416,429), 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. Management continues to actively pursue the necessary capital to meet its funding requirements and has implemented available cost control measures.

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

3. Changes in Accounting Policies

a) Change in Accounting Policy

For the current fiscal year, the Company changed its accounting policy for resource property exploration costs. In prior years, the Company capitalized the acquisition costs of resource properties and deferred exploration expenditures directly related to specific resource properties, net of recoveries received. Under the new policy, property exploration costs incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are charged to operations as incurred. Exploration costs also include exploration licence and maintenance fees which are paid on a yearly basis.

Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves. Management believes that this treatment provides a more accurate depiction of the asset base of the Company prior to establishing the economic feasibility of its resource base. The Company also wishes to proactively adopt policies which are congruent with the treatment under International Financial Reporting Standards (IFRS), given the CICA's stated goal of IFRS convergence by 2011.

Premium Exploration Inc.

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

3. Changes in Accounting Policies - *continued*

As provided by CICA Handbook Section 1506, the Company has accounted for this change in accounting policy on a retrospective basis with restatement of the opening deficit balance and the mineral property asset disclosed for the prior period presented as if the new accounting policy had always been applied. The impact of this change is as follows:

Consolidated Balance Sheet	31 December 2007		31 December 2007	
	As previously reported	Restatement	As Restated	
Resource properties	\$ 2,199,607	\$ (1,952,193)	\$	247,414
Consolidated Statements of Loss, Comprehensive Loss, Deficit and Accumulated Other Comprehensive Income (Loss)				
General exploration	105,103	(105,103)		-
Write-off of resource property costs	5,914	(5,914)		-
Mineral property expense	-	1,933,127		1,933,127
Loss for the Year	(2,099,845)	(1,266,341)		(3,366,186)
Deficit – Beginning of Year	(1,282,067)	(576,176)		(1,858,243)
Deficit – End of Year	(3,381,912)	(1,842,517)		(5,224,429)
Loss per share – Basic and diluted	(0.08)			(0.13)
Accumulated other Comprehensive Income (Loss) – Beginning of Year	(1,536)	(58,372)		(59,908)
Translation adjustment	314,394	(51,304)		263,090
Accumulated other Comprehensive Income (Loss) – End of Year	\$ 312,858	\$ (109,676)	\$	203,182

Effective 1 January 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

b) 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. Effective for the current period, this new standard has no material effect on the Company's financial statements other than disclosure.

c) Sections 3862 and 3863 Financial Instruments – Disclosure and Presentation

These sections require disclosure of qualitative and quantitative information in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance and, the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives policies and procedures for managing such risks. These recommendations are effective for the Company's reporting periods beginning 1 January 2008. These new standards had no material effect on the Company's financial statements other than disclosure.

d) Section 1400 – Assessing Going Concern

The Canadian Accounting Standards Board ("AcSB") amended CICA Handbook Section 1400 to include requirements to assess and disclose an entity's ability to continue as a going concern. This section applies to financial statements relating to fiscal years beginning on or after 01 January 2008 (*Note 2*).

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

4. Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which require management to make estimates and assumptions that affect the reported amounts and other disclosures in these financial statements. The Company's key estimates relate to amortization of property plant and equipment, the tax asset valuation allowance and the measurement of stock based compensation. Actual results may differ from those estimates. The Company's significant accounting policies are as follows:

a) Basis of Presentation

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

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

b) Resource Properties

Exploration costs incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are charged to operations as incurred.

Exploration costs include licence and maintenance fees which are paid on a regular basis.

All direct costs related to acquisition of resource property interests are capitalized, if, in the opinion of management, they have the nature of property, plant and equipment.

Development expenditures incurred subsequent to a development decision that increase or extend the life of existing production, are capitalized and amortized on the unit-of-production method based upon estimated proven and probable reserves.

c) Property, Plant and Equipment

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

Computer equipment	20% straight line basis
Field equipment	20% straight line basis
Furniture and equipment	20% straight line basis
Website development	50% straight line basis

d) Property Option Agreements

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

e) Stock-Based Compensation

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

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

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

4. Significant Accounting Policies – *continued*

f) Loss per Share

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

g) Asset Retirement Obligations

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

h) Foreign Currency Translation

The Company's functional currency is the Canadian dollar; accordingly 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.

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

4. Significant Accounting Policies – *continued*

i) Future Income Taxes

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

j) Financial Instruments – recognition and measurement

The Company classifies all financial instruments as one of: held-for-trading (“Ht”), available-for-sale (“As”), held-to-maturity (“Hm”), loans and receivables or other financial liabilities. Financial instruments are required to be measured at fair market value on initial recognition. Measurement in subsequent periods depends on classification. Ht instruments are measured at fair value with the unrealized gains and losses recognized in the results of operations. As instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Hm and all other instruments are measured at amortized cost.

The Company classifies: cash as Ht, receivables as loans and receivables, accounts payable and accrued liabilities and notes payable as other financial liabilities.

k) Comprehensive Income

Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as As and cumulative translation adjustments.

l) International Financial Reporting Standards

In addition to the above accounting pronouncements the AcSB published, in 2006, a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) over an expected 5 year transitional period. In February of 2008 the AsCB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for financial statements relating to fiscal years beginning on or after 1 January 2011. The transition date of 1 January 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended 31 December 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

m) Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064 – Goodwill and Intangible Assets which replaced Handbook Section 3062 – Goodwill and Other Intangible Assets. This revision, effective for years commencing 1 January 2009, aligned Canadian GAAP with IFRS and established standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company does not expect the adoption of this standard to have any impact on the Company's financial statements.

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

4. Significant Accounting Policies – *continued*

n) Business Combinations; Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations; 1601 – Consolidated Financial Statements; and 1602 – Non-Controlling Interests. These sections replace the former CICA Handbook Section 1581 – Business Combinations and CICA 1600 – Consolidated Financial Statements and establish a new section for accounting for a noncontrolling interest in a subsidiary. These sections also provide the Canadian equivalent to IFRS 3 – Business Combinations and IAS 27 – Consolidated and Separate Financial Statements.

CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1692 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. Management has not yet evaluated the impact of these standards on the Company's financial statements.

5. Resource Properties

a) A summary of exploration expenditures for the year ended 31 December 2008 follows:

	United States		Mexico		Total
Property payments	\$ 41,380	\$	360,280	\$	401,660
Administration	43,042		10,242		53,284
Assaying	169,717		27,385		197,102
Field transportation	-		65,945		65,945
Drilling	-		119,485		119,485
General	177,276		57,796		235,072
Geochemical	-		49,812		49,812
Geological	244,155		273,584		517,739
Filing and concession fees	64,957		47,609		112,566
Surface access	-		20,157		20,157
Reports	147,383		12,922		160,305
Total	\$ 887,910	\$	1,045,217	\$	1,933,127

A summary of exploration expenditures for the year ended 31 December 2007 follows:

	United States		Mexico		Total
Property payments	\$ 17,171	\$	470,187	\$	487,358
Administration	-		20,185		20,185
Assaying	-		17,070		17,070
Field transportation	-		31,522		31,522
Drilling	-		146,956		146,956
General	130,538		22,794		153,332
Geochemical	-		14,912		14,912
Geological	1,000		361,133		362,133
Filing and concession fees	5,756		66,819		72,575
Surface access	-		31,641		31,641
Reports	3,912		35,759		39,671
Total	\$ 158,377	\$	1,218,978	\$	1,377,355

Acquisition costs relate to cash and issuance of shares on the Chrome Mountain project

Premium Exploration Inc.

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

5. Mineral Properties - continued

a) Details of mineral properties activities

Year ended	United States			Mexico		Total
	Clearwater	Other	San Pedro Analco	Other		
31 December 2008	\$	\$	\$	\$	\$	
Assaying	169,717	-	9,278	18,107	197,102	
Drilling	-	-	8,345	111,140	119,485	
Claim fees	64,957	-	1,400	46,209	112,566	
Geological	244,155	-	1,019	272,565	517,739	
Reports	147,383	-	-	12,922	160,305	
General	32,785	144,491	3,380	54,416	235,072	
Property payments	41,380	-	195,676	164,604	401,660	
Field transport	-	-	6,035	59,910	65,945	
Administration	-	43,042	4,198	6,044	53,284	
Geochemical	-	-	4,742	45,070	49,812	
Surface access	-	-	-	20,157	20,157	
	700,377	187,533	234,073	811,144	1,933,127	
Year ended	United States			Mexico		Total
31 December 2007	Clearwater	Other	San Pedro Analco	Other	\$	
	\$	\$	\$	\$	\$	
Assaying	-	-	-	17,070	17,070	
Drilling	-	-	-	146,956	146,956	
Claim fees	5,756	-	503	66,316	72,575	
Geological	-	1,000	37,930	323,203	362,133	
Reports	-	3,912	-	35,759	39,671	
General	-	130,538	2,580	20,214	153,332	
Property payments	17,171	-	72,899	397,288	487,358	
Field transport	-	-	1,694	29,828	31,522	
Administration	-	-	2,028	18,157	20,185	
Geochemical	-	-	782	14,130	14,912	
Surface access	-	-	-	31,641	31,641	
	22,927	135,450	118,416	1,100,562	1,377,355	

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

5. Resource Properties – *continued*

b) Montana Properties, U.S.A.

As provided by certain agreements and subsequent amendments, in prior years, the Company, through its subsidiary Premium USA, purchased certain 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 additional claims, which are contiguous to the original acquired claims.

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

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

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

By a letter of intent dated 1 September 2007, the Company entered into an agreement to acquire the South Orogrande shear zone located in the state of Idaho, from Clearwater Mining Company (“Clearwater”).

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

- Assumption of an underlying 1.0-per-cent net smelter return royalty on the Friday-Petsite property payable jointly to previous operators of the property that is capped at \$1-million.
- Assumption of an underlying 1.0-per-cent net smelter return royalty on the Dixie property payable jointly to previous operators of the property that is capped at \$1-million. Including acquisition costs of \$142,949 paid in the year.
- Assumption of all other obligations of Clearwater under various agreements with third party property vendors for the South Orogrande shear zone.
- Assumption of the yearly US BLM claim maintenance fees on the South Orogrande shear zone.

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

5. Resource Properties - continued

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

d) Nueva Galicia Property, Nayarit, Mexico

By an exploration agreement with purchase option dated 7 July 2006 and amended 30 November 2006, the Company has the right to explore certain concessions located in the State of Nayarit, Mexico. The Company abandoned this property during the fiscal year under review.

e) 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. The Company abandoned this property during the 2008 fiscal year.

f) San Pedro Analco Property, Jalisco, Mexico

By a letter of intent dated 25 August 2006, the Company paid \$5,000 and was granted the right to enter into an option to explore and acquire certain concessions located in the State of Jalisco, Mexico. On 11 January 2007 the Company entered into a definitive option agreement whereby the Company must complete the following in order to maintain the option in good standing:

	Issue Shares from Treasury		Cash Payments		Complete Exploration Expenditures	
11 January 2007	10,000	(i)\$	25,000	(ii)\$	-	
11 July 2007	15,000	(i)	50,000	(ii)	50,000	(iii)
11 January 2008	15,000	(i)	50,000	(ii)	250,000	(iii)
11 January 2009	25,000	(iv)	125,000	(iv)	250,000	(iv)
11 July 2009	80,000		250,000		500,000	
11 January 2010	80,000		250,000		500,000	
Total	225,000	\$	750,000	\$	1,550,000	

- (i) Issued
- (ii) Paid
- (iii) Complete
- (iv) Currently under renegotiation

g) 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 abandoned this property during the fiscal year under review.

h) 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 abandoned this property during the 2008 fiscal year.

Premium Exploration Inc.

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

5. Resource Properties - *continued*

i) 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 abandoned this property during the fiscal year under review.

6. Property, Plant and Equipment

Details are as follows:

31 December 2008	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 33,292	\$ 10,313	\$ 22,979
Furniture and equipment	32,529	11,662	20,867
Field equipment	258,241	92,491	165,750
Website development	7,225	2,109	5,116
	\$ 331,287	\$ 116,575	\$ 214,712

31 December 2007	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 34,443	\$ 10,034	\$ 24,409
Furniture and equipment	35,243	6,779	28,464
Field equipment	289,797	45,557	244,240
	\$ 359,483	\$ 62,370	\$ 297,113

7. Notes Payable

Details are as follows:

	31 December 2008	31 December 2007
Delbert Steiner, a director, promissory note payable, unsecured, bears interest at 8% per annum, repayable on demand,	\$ 153,504	\$ 106,260
Barney Green Lee, a director, promissory note payable, unsecured, bears interest at 8% per annum and repayable on demand	59,777	47,000
Delbert Steiner, a director, during the year the Company rolled these amounts into the promissory note above	-	20,000
Delbert Steiner, a director, during the year the Company rolled these amounts into the promissory note above	-	20,664
	213,281	193,904
Current portion	213,281	193,904
	\$ -	\$ -

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

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 for property	125,000	38,337	-	-
Issuance of shares on private placements	8,354,250	2,220,228	4,058,500	368,273
Issuance of agents warrants	-	-	210,000	25,156
Issuance of shares exercise of options	37,500	7,178	-	-
Issuance of shares on warrant exercise	2,481,540	731,819	-	-
Fair value transfer on exercise of options	-	5,970	-	-
Fair value transfer on exercise of warrants	-	190,875	(2,481,540)	(190,875)
Share issuance costs	-	(187,645)	-	(21,664)
Balance – 31 December 2007	31,762,593	\$ 4,734,079	6,456,960	\$ 559,482
Issuance of shares for property	140,000	59,359	-	-
Issuance of shares on private placements	3,400,166	783,044	3,400,166	178,149
Issuance of shares exercise of options	237,500	52,682	-	-
Issuance of shares on warrant exercise	3,926,960	1,474,945	-	-
Fair value transfer on exercise of options	-	54,252	-	-
Fair value transfer on exercise of warrants	-	354,284	(3,926,960)	(354,284)
Expiration or warrants Returned to treasury	(25,000)	-	(2,530,000)	-
Share issuance costs	-	(55,008)	-	(12,514)
Balance – 31 December 2008	39,442,219	\$ 7,457,637	3,400,166	\$ 370,833

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

On 20 August 2008, the Company issued 3,400,166 units on a private placement at Cdn\$0.30 per unit for gross proceeds of Cdn\$1,020,050. Each unit consisted of one common share and one common share purchase warrant. Each warrant allows the holder to acquire one additional common share for a two year period at an exercise price of Cdn\$0.50 in the first year and Cdn\$0.75 in the second year. The Company paid agents commissions of Cdn\$66,600.

On 22 July 2007 the Company issued 3,306,250 units of the Company at Cdn\$0.40 for total gross proceeds of Cdn\$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 Cdn\$0.50 per share before 23 August 2008. In addition the company paid finders fees of Cdn\$32,750 and issued 201,250 (fair value Cdn\$80,500) shares in connection with the offering.

On 15 June 2007 the Company issued 1,546,750 units of the Company at Cdn\$0.40 for total gross proceeds of Cdn\$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

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

8. Share Capital - continued

Cdn\$0.50 per share before 15 June 2008. The Company paid a finders fee of Cdn\$20,000 on the private placement.

On 12 March 2007, the Company issued 3,300,000 units on two private placements at Cdn\$0.25 per unit for gross proceeds of Cdn\$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 Cdn\$0.35 per share. The Company paid the agent a commission of Cdn\$20,000 and 210,000 common share purchase warrants (fair value \$25,156) and a finder fee of Cdn\$30,000 was also paid. Each agent's warrant allows the agent to acquire one additional common share for one year at Cdn\$0.30 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 61%(2007 – 100%), an estimated risk-free rate of 2.80% (2007 4.19% – 4.25%), an estimated dividend rate of 0.00%(2007 – 0%) and an estimated life of the warrants of 1 year (2007 -1 year), respectively.

There were originally 7,280,001 shares, subject to an escrow agreement dated 31 December 2004 and an amendment dated 1 November 2005. Under the terms of the amended escrow agreement 728,001 shares were released from escrow on the date the shares of the Company were listed on the TSX-V and 1,092,000 will be released at the completion of each six-month period after the initial listing date. As at 31 December 2008, there are Nil shares remaining.

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.

Stock option activity during the year is summarized as follows:

	2008	Weighted Average Exercise Price	2007	Weighted Average Exercise Price
Balance - Beginning of Year	4,880,000	Cdn\$0.25	1,925,000	Cdn\$0.25
Granted	950,000	0.42	3,530,000	0.30
Exercised	(237,500)	0.22	(37,500)	0.20
Expired / Cancelled	(1,387,500)	0.31	(537,500)	0.26
Balance – End of Year	4,205,000	Cdn\$0.31	4,880,000	Cdn\$0.28

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

Expiry Date	Exercise Price	2008	2007
1 March 2011	Cdn \$ 0.30	450,000	600,000
15 November 2011	Cdn \$ 0.20	150,000	600,000
15 November 2011	Cdn \$ 0.20	150,000	150,000
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	1,025,000	1,400,000
15 February 2013	Cdn \$ 0.66	200,000	-
7 April 2013	Cdn \$ 0.33	150,000	-
2 May 2013	Cdn \$ 0.30	500,000	-
		4,205,000	4,880,000

Premium Exploration Inc.

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

8. Share Capital - continued

The outstanding options have a weighted-average exercise price of Cdn \$0.31 and the weighted-average remaining life of the options is 3.44 years. As at 31 December 2008, a total of 5,312,141 (2007 – 3,289,375) of these outstanding options had vested. Total exercisable is 3,449,641 with a weighted average exercise price of Cdn \$0.31.

The Company used the Black-Scholes model to value the options using an estimated volatility of 59 - 61% (2007 – 100%), an estimated risk-free rate of 3.64% (2007 - 3.09% - 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

	2008	Weighted Average Exercise Price	2007	Weighted Average Exercise Price
Balance - Beginning of Year	6,456,960	Cdn \$0.28	4,670,000	Cdn \$0.34
Issued	3,400,166	0.50	4,268,500	0.44
Exercised	(3,926,960)	0.38		
Expired	(2,530,000)	0.49	(2,481,540)	0.29
Balance – End of Year	3,400,166	Cdn \$0.50	6,456,960	Cdn \$0.28

A summary of outstanding is as follows:

	Price	Expiry	Number of Warrants (i)
Issued - 20 August 2008	Cdn \$0.50	20 August 2010	3,400,166
Balance - 31 December 2008			3,400,166

- (i) The number of warrants is expressed in equivalent number of common shares, which may be issued upon exercise of the warrants. The existing warrants are exercisable at Cdn \$.75 in the second year.

e) Stock-based compensation

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

	2008	2007
Total options granted	950,000	3,530,000
Average exercise price (in Cdn\$)	\$ 0.42	\$ 0.30
Estimated fair value of compensation	\$ 215,240	\$ 821,362
Estimated fair value per option	\$ \$0.23	\$ 0.23

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%	3.64%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	60.00%	100.00%
Expected option life in years	5.00	4.93

Premium Exploration Inc.

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

8. Share Capital – continued

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

	<u>2008</u>	<u>2007</u>
Number of options vested	<u>2,022,766</u>	2,583,125
Total compensation recognized	<u>\$ 437,897</u>	\$ 582,579

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:

	<u>2008</u>	<u>2007</u>
Balance - Beginning of Year	\$ 745,019	\$ 168,410
Stock-based compensation	437,897	582,579
Fair value of stock options exercised	<u>(54,252)</u>	<u>(5,970)</u>
Balance - End of Year	<u>\$ 1,128,664</u>	<u>\$ 745,019</u>

9. Related Party Transactions

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

- a) The Company paid management fees of \$84,000 (2007 - \$76,500) to a director in his capacity of chief executive officer.
- b) The Company paid consulting fees of \$46,000 (2007 - \$24,000) to an officer of the Company in the capacity of chief financial officer.
- c) The Company paid management fees of \$84,000 (2007 - \$24,000) to a director of the Company in the capacity of Vice President of mining development.
- d) The Company paid wages of \$30,000 (2007 - Nil) to a director for administrative services.
- e) Included in accounts payable is \$73,500 (2007 - \$3,673) owing to directors or officers.
- f) The Company incurred \$17,293 (2007 - \$21,575) of interest on existing 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

December 31, 2008	<u>Capital Assets</u>
Canada	\$ 28,098
United States	88,415
Mexico	<u>98,199</u>
Total	<u>\$ 214,712</u>
December 31, 2007	<u>Capital Assets</u>
Canada	\$ 25,798
United States	144,790
Mexico	<u>126,545</u>
Total	<u>\$ 297,113</u>

Premium Exploration Inc.

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

11. Income Taxes

	2008	2007
Consolidated accounting loss before taxes	\$ (3,743,000)	\$ (3,366,000)
Adjustments between accounting and taxable income:		
Amortization	76,000	54,000
Stock-based compensation	438,000	583,000
Share issuance costs	(96,000)	(124,000)
Unrealized foreign exchange	214,000	112,000
Consolidated income for tax purposes	(3,111,000)	(2,741,000)
Statutory tax rate	31.0%	34.1%
Tax expense at statutory rates	(964,000)	(935,000)
Increase (decrease) in taxes due to:		
Foreign income at different tax rates	0	600
Current valuation allowance (recovery)	964,000	935,600
	\$ -	\$ -
	2008	2007
Non-capital loss carry-forwards	\$ 1,193,000	\$ 737,600
Property, plant and equipment	117,000	16,800
Share issuance costs	84,000	110,600
	1,394,000	865,000
Valuation allowance	(1,394,000)	(865,000)
Future tax assets	-	-

- b) The Company has tax loss carry-forwards in Canada of approximately \$1,790,000, which expire up to 2027. The future potential tax savings associated with the loss carry-forwards has not been recognized in these financial statements.
- c) The Company has tax loss carry-forwards in the United States of approximately \$2,010,000, which expire up to 2026. The future potential tax savings associated with these items have not been recognized in these financial statements.
- d) The Company has tax loss carry-forwards in Mexico of approximately \$2,032,000, which expire up to 2016. The future potential tax savings associated with these items have not been recognized in these financial statements.

12. Capital Disclosures

The Company is in the business of mineral exploration and has no source of operating revenue. The Company's short-term debt is provided by the principle directors and officers, and the Company has no long-term debt. Operations are financed through the issuance of capital stock. Capital raised is held in cash in an interest bearing bank account until such time as it is required to pay operating expenses or resource property costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company's objectives have not changed during the year.

Notes to Consolidated Financial Statements

U.S. Funds

For the Years Ended 31 December 2008 and 2007

13. Financial Instruments

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, and notes payable. The Company has no speculative financial instruments, derivatives, forward contracts or hedges.

Currency & credit risk – All of the Company's Canadian cash is held in an interest bearing account at a major bank and such balances earn interest at market rates. The Company also maintains cash in the US\$ and the Mexican Peso. The cash balances and payables that are denominated in foreign currencies are subject to currency risk due to fluctuations in the exchange rate between the currencies. To manage this risk the Company maintains only the minimum amount of foreign cash required to fund its ongoing exploration expenditures. At 31 December 2008 the Company held currency totalling Cdn\$128,697 US\$16,595; and Pesos\$28,962. Accounts payable are settled in a timely manner. It is management's opinion that the Company is not exposed to significant currency risk.

Fair Value – As at 31 December 2008 and 2007 the carrying values of receivables, accounts payable and accrued liabilities and notes payable approximate their fair values due to their short term to maturity.

It is management's opinion that the Company is not exposed to significant credit, interest rate, liquidity or market risks in respect of these financial instruments. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

14. Subsequent Events

On 13 January 2009, the Company issued 2.05 million stock options to certain directors, officers and consultants of the Company. The options are exercisable at Cdn\$0.15 for a period of five years.

On 02 March 2009, the Company announced that it had entered into two letters of intent with SNS Silver Corp. ("SNS"), to jointly develop and explore certain of the Company's Clearwater properties.

The Letters of Intent (LOI) allow SNS to earn in to a maximum of 50% by advancing financing and paying certain exploration and development costs to develop certain of the Clearwater properties. SNS has initially paid Cdn \$125,000 in advance on each LOI, of which \$100,000 on each LOI is refundable if a definitive agreement cannot be reached. The parties agree to enter into a Definitive Agreement within 90 days. Consideration will include SNS stock along with ongoing financing as agreed, on a schedule for each project.

15. Comparative Figures

Some of the comparative figures have been reclassified to conform to the current year's presentation.