



**PREMIUM EXPLORATION INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 December 2009 and 2008  
Stated in Canadian 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, 2009 and 2008 and the consolidated statements of loss, comprehensive loss and deficit 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, 2009 and 2008 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 27, 2010



**Consolidated Balance Sheets**

As at 31 December

Canadian Funds

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
<b>Current</b>		
Cash	\$ 1,123,951	\$ 145,496
Receivables	28,222	113,086
Prepaid expenses	59,023	47,476
	<b>1,211,196</b>	306,058
<b>Resource Properties</b> (Note 4)	249,889	249,889
<b>Equipment</b> (Note 5)	101,186	261,524
	<b>\$ 1,562,271</b>	<b>\$ 817,471</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 230,718	\$ 606,669
Notes payable (Note 6)	-	259,782
	<b>230,718</b>	866,451
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (Note 7)	10,468,438	8,095,867
<b>Share Purchase Warrants</b> (Note 7)	1,406,637	176,386
<b>Contributed Surplus</b> (Note 7)	1,734,782	1,453,546
<b>Deficit</b> (Statement 2)	(12,278,304)	(9,774,779)
	<b>1,331,553</b>	(48,980)
	<b>\$ 1,562,271</b>	<b>\$ 817,471</b>

Going Concern (Note 1)

Commitments (Note 12)

Subsequent Events (Note 13)

ON BEHALF OF THE BOARD:

"Delbert W. Steiner", Director

"Wilfried Struck", Director

## Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the Years Ended 31 December

Canadian Funds

	2009	2008
<b>Expenses</b>		
Resource property expenditures (Note 4)	\$ 1,269,006	\$ 2,049,758
Shareholder relations	317,473	444,922
Stock-based compensation (Note 7)	302,077	451,667
Management fees	215,690	261,174
Professional fees	124,134	169,613
Travel	112,024	133,691
Office and general	59,878	119,677
Office rent	56,870	63,082
Transfer agent and filing fees	39,933	23,641
Amortization	52,759	80,240
Interest expense	7,344	25,042
Insurance	20,482	4,418
Interest income	(2,169)	(10,112)
Foreign exchange loss	(130,101)	228,943
<b>Loss before the other items</b>	<b>(2,445,400)</b>	<b>(4,045,756)</b>
Gain on extinguishment of debt	(7,467)	-
Loss on disposition of equipment (Note 5)	65,592	-
<b>Loss and comprehensive loss for the year</b>	<b>(2,503,525)</b>	<b>(4,045,756)</b>
Deficit - beginning of year	(9,774,779)	(5,729,023)
<b>Deficit - End of Year</b>	<b>\$ (12,278,304)</b>	<b>\$ (9,774,779)</b>
<b>Loss per Share - Basic and Diluted</b>	<b>\$ (0.05)</b>	<b>\$ (0.11)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>46,048,490</b>	<b>36,659,365</b>

Premium Exploration Inc.

## Consolidated Statements of Cash Flows

Canadian Funds

For the Years Ended 31 December 2009 and 2008

<b>Cash Resources Provided By (Used In)</b>	<b>2009</b>		<b>2008</b>	
<b>Operating Activities</b>				
Loss for the year	\$	(2,503,525)	\$	(4,045,756)
Items not affecting cash:				
Amortization		52,759		80,240
Stock-based compensation		302,077		451,667
Shares issued for resource property		33,945		59,746
Unrealized foreign exchange		(9,997)		29,474
Loss on disposition of equipment		65,592		-
		<b>(2,059,149)</b>		<b>(3,424,629)</b>
Net Change in non-cash working capital		<b>(248,618)</b>		<b>428,787</b>
		<b>(2,307,767)</b>		<b>(2,995,842)</b>
<b>Investing Activities</b>				
Purchase of equipment		(12,029)		(47,593)
Property advances		250,000		-
Repayment of advances		(125,000)		-
		<b>112,971</b>		<b>(47,593)</b>
<b>Financing Activities</b>				
Issuance of shares		1,970,663		2,365,730
Issuance of share purchase warrants		1,302,576		189,058
Unit offering issuance costs		(42,364)		(71,657)
Issuance of notes payable		-		28,371
Repayment of notes payable		(57,624)		-
		<b>3,173,251</b>		<b>2,511,502</b>
<b>Net Increase (Decrease) in Cash</b>		<b>978,455</b>		<b>(531,933)</b>
Cash position - beginning of year		145,496		677,429
<b>Cash Position - End of Year</b>	<b>\$</b>	<b>1,123,951</b>	<b>\$</b>	<b>145,496</b>
<b>Schedule of non-cash investing and financing transactions:</b>				
		<b>December 31, 2009</b>		<b>December 31, 2008</b>
Settlement of related party payable	\$	54,016	\$	-
Fair value of options exercised		20,841		48,109
Fair value of warrants exercised		8,871		408,571
Fair value of share purchase warrants – issue costs		(63,454)		-
Shares issued for debt – note payable		192,161		-
Share issued for share issuance costs		161,000		-
Shares issued to settle repayment of property advance		125,000		-
Share issuance costs		(97,546)		-
<b>Supplementary disclosure of cash flow information:</b>				
		<b>December 31, 2009</b>		<b>December 31, 2008</b>
Cash paid for interest	\$	-	\$	-
Cash paid for income taxes	\$	-	\$	-

## Notes to the Consolidated Financial Statements

*Canadian Funds*

For the Years Ended 31 December 2009 and 2008

### 1. Going Concern

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").

These consolidated financial statements have been prepared on the basis of the accounting principles applicable to a going concern, which assumes the Company will be able to 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.

There are several adverse conditions that cast significant doubt upon the soundness of this assumption. The Company has a current working capital (deficit) of \$980,478 (2008 - \$(560,393)) and has incurred losses since inception and has an accumulated deficit of \$12,278,304 (2008 - \$9,774,779). 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.

Consistent with other companies, in the sector of mineral exploration, the Company has incurred operating losses since inception, has no source of revenue, is unable to self finance operations and has significant cash requirements to meet its overhead and maintain its mineral interests.

For the company to continue to operate as a going concern it must continue to obtain additional financing to maintain operations; although the Company has been successful in the past at raising funds, there can be no assurance that this will continue in the future.

If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used and such adjustments could be material.

### 2. Significant Accounting Policies

#### 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.
- Compania Minera Zorro de Rojo, S.A. de C.V. ("CMR"), which was incorporated at nominal cost in the State of Sonora, Mexico.

#### b) Management's Estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's key estimates relate to the value of equipment, the measurement of stock-based compensation, the valuation of warrants, the valuation allowance for future income tax assets and liabilities and foreign currency translation. Actual results may differ from these estimates.

## Notes to the Consolidated Financial Statements

Canadian Funds

For the Years Ended 31 December 2009 and 2008

### 2. Significant Accounting Policies - *continued*

#### c) Loss per Share

Basic earnings (loss) per share are calculated using the weighted-average number of shares outstanding during the period. The Company uses the treasury stock method to calculate diluted earnings per share, which assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The effect on loss per share of the Company's outstanding options and warrants is anti-dilutive and, therefore, basic and diluted loss per share amounts are the same.

#### d) 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.

#### e) 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 license 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.

#### f) Property Option Agreements

The Company may occasionally acquire or dispose of properties pursuant to the terms of options agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, amounts payable or receivable are not recorded. Option payments are recorded as resource property cost or gains when the payments are made or received.

#### g) Environmental

The operations of the Company may, in the future, be affected by changes in environmental regulation, including those for future reclamation and site restoration costs. The likelihood of new regulations and the overall effect they might have on the Company vary greatly and are neither measureable nor predictable.

#### h) Equipment

Equipment is 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 software	50% straight line basis

## Notes to the Consolidated Financial Statements

Canadian Funds

For the Years Ended 31 December 2009 and 2008

### 2. Significant Accounting Policies - *continued*

#### i) 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. The liability for asset retirement obligations must be recognized at fair value in the period in which it is incurred, when a reasonable estimate of fair value can be made. Such retirement costs are added to the carrying value of the asset, and amortized into income on a systematic basis over the useful life. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised. The Company has determined that it has no asset retirement obligations as at 31 December 2009.

#### j) Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

#### k) 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.

#### l) 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.

#### m) Financial Instruments – Recognition and Measurement

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The Company had no other comprehensive income or loss transactions.

## Notes to the Consolidated Financial Statements

Canadian Funds

For the Years Ended 31 December 2009 and 2008

### 2. Significant Accounting Policies - *continued*

#### m) Financial Instruments – Recognition and Measurement - *continued*

The Company classified its cash as held-for-trading which is measured at fair value. Receivables are classified as loans and receivables and accounts payable and accrued liabilities are classified as other liabilities, all of which are measured at amortized cost.

#### n) Change in Reporting Currency to the Canadian dollar

Effective January 1, 2009 the Company changed its reporting currency to the Canadian dollar. The change in the reporting currency is to better reflect the Company's business activities and to improve investor's ability to compare the Company's financial results with other publicly traded businesses in the industry.

Prior to January 1, 2009 the Company reported its annual consolidated financial statements in the U.S. dollar. The related financial statements and corresponding notes prior to January 1, 2009 have been restated in Canadian dollars for comparison to the 2009 financial results.

#### o) ADOPTION OF NEW ACCOUNTING POLICIES

##### *New accounting pronouncements*

Effective January 1, 2009, the Company adopted the following accounting standard updates issued by the CICA:

##### *Goodwill and intangible assets (Section 3064)*

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard had no effect on the Company's consolidated financial statements.

##### *Amendment to Financial Instruments – Disclosures*

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

See Note 3 for relevant disclosures.

## Notes to the Consolidated Financial Statements

Canadian Funds

For the Years Ended 31 December 2009 and 2008

### 2. Significant Accounting Policies - *continued*

#### o) ADOPTION OF NEW ACCOUNTING POLICIES - *continued*

Effective January 1, 2011, the Company is required to adopt the following accounting standards issued by the CICA:

##### *Business Combinations*

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations (“Section 1582”), 1601 – Consolidated Financial Statements (“Section 1601”) and 1602 – Non-controlling Interests (“Section 1602”) which replaces CICA Handbook Section 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

##### *International Financial Reporting Standards (“IFRS”)*

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 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.

### 3. Financial Instruments

The Company’s financial instruments consist of cash, receivables and accounts payable and accrued liabilities. 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 US dollars 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 2009 the Company held currency totalling Cdn\$807,000; US\$297,000; and Pesos\$75,000. 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 2009 and 2008 the carrying values of receivables, accounts payable and accrued liabilities and notes payable approximate their fair values due to their short term to maturity. Cash is measured at fair value using level 1 inputs.

Premium Exploration Inc.

## Notes to the Consolidated Financial Statements

Canadian Funds

For the Years Ended 31 December 2009 and 2008

### 3. Financial Instruments – continued

Liquidity risk - Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings, short-term debt and the optioning of its mineral properties to other mining entities to satisfy its capital requirements and will continue to depend heavily upon these financing activities.

There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipated it will need additional capital in the future to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options, warrants, the completion of other equity financings and or optioning its mineral properties to other mining entities. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the previously mentioned financing activities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

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.

### 4. Resource Properties

- a) Summary of exploration expenditures for the years ended 31 December 2009 and 2008.

2009	United States	Mexico	Total
Administration	\$ 148,345	\$ 383	\$ 148,728
Assaying	126,434	-	126,434
Claim fees	102,493	45,724	148,217
Drilling	515,616	-	515,616
Field transport	7,145	4,781	11,926
General	196,331	-	196,331
Geological	113,327	-	113,327
Surface access	8,427	-	8,427
	<u>\$ 1,218,118</u>	<u>\$ 50,888</u>	<u>\$ 1,269,006</u>

2008	United States	Mexico	Total
Administration	\$ 45,639	\$ 10,860	\$ 56,499
Assaying	179,957	29,037	208,994
Claim fees	68,876	50,481	119,357
Drilling	-	126,693	126,693
Field transport	-	69,924	69,924
General	187,972	61,282	249,254
Geochemical	-	52,817	52,817
Geological	258,886	290,090	548,976
Property/Maintenance payments	43,877	382,017	425,894
Reports	156,275	13,702	169,977
Surface access	-	21,373	21,373
	<u>\$ 941,482</u>	<u>\$ 1,108,276</u>	<u>\$ 2,049,758</u>

Premium Exploration Inc.

**Notes to the Consolidated Financial Statements**

Canadian Funds

For the Years Ended 31 December 2009 and 2008

**4. Resource Properties - continued**

**b) Details of exploration expenditures for the years ended 31 December 2009 and 2008.**

2009	United States				Total
	Clearwater	Petsite Friday	Chrome Mountain		
Administration	\$ 63,576	\$ 84,769	\$ -	\$ -	148,345
Assaying	-	126,434	-	-	126,434
Claim fees	52,114	31,567	18,812	-	102,493
Drilling	-	515,616	-	-	515,616
Field transport	7,145	-	-	-	7,145
General	122,870	73,461	-	-	196,331
Geological	50,427	62,900	-	-	113,327
Surface access	-	8,427	-	-	8,427
	<u>\$ 296,132</u>	<u>\$ 903,174</u>	<u>\$ 18,812</u>	<u>\$ -</u>	<u>1,218,118</u>

Year ended 31 December 2008	United States				Total
	Clearwater	Petsite Friday	Chrome Mountain		
Administration	\$ -	\$ 45,639	\$ -	\$ -	45,639
Assaying	179,957	-	-	-	179,957
Claim fees	68,876	-	-	-	68,876
General	34,763	153,209	-	-	187,972
Geological	258,886	-	-	-	258,886
Property/Maintenance payments	43,877	-	-	-	43,877
Reports	156,275	-	-	-	156,275
	<u>\$ 742,634</u>	<u>\$ 198,848</u>	<u>\$ -</u>	<u>\$ -</u>	<u>941,482</u>

Year ended 31 December 2009	Mexico			Total
	San Pedro Analco	Other		
Administration	\$ 383	\$ -	\$ -	383
Claim fees	33,735	11,989	-	45,724
Field transport	4,781	-	-	4,781
	<u>\$ 38,899</u>	<u>\$ 11,989</u>	<u>\$ -</u>	<u>50,888</u>

Year ended 31 December 2008	Mexico			Total
	San Pedro Analco	Other		
Administration	\$ 4,451	\$ 6,409	\$ -	10,860
Assaying	9,838	19,199	-	29,037
Claim fees	1,484	48,997	-	50,481
Drilling	8,848	117,845	-	126,693
Field transport	6,399	63,525	-	69,924
General	3,584	57,698	-	61,282
Geochemical	5,028	47,789	-	52,817
Geological	1,080	289,010	-	290,090
Property/Maintenance payments	207,482	174,535	-	382,017
Reports	-	13,702	-	13,702
Surface access	-	21,373	-	21,373
	<u>\$ 248,194</u>	<u>\$ 860,082</u>	<u>\$ -</u>	<u>1,108,276</u>

## Notes to the Consolidated Financial Statements

Canadian Funds

For the Years Ended 31 December 2009 and 2008

### 4. Resource Properties - *continued*

#### c) 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 shares (fair value \$223,859) from treasury, paid \$26,030 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 on the Chrome Mountain project.
- A 1% net smelter royalty on both the Company's and Beartooth's properties.
- Beartooth must complete US\$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 US\$2,000,000.
- Upon completion of the required US\$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.

#### d) 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% net smelter return royalty on the Friday-Petsite property payable jointly to previous operators of the property that is capped at US\$1,000,000.
- Assumption of an underlying 1.0% net smelter return royalty on the Dixie property payable jointly to previous operators of the property that is capped at US\$1,000,000. Including acquisition costs of US\$142,949 paid in the prior year.
- Assumption of the yearly Business of Land Management claim maintenance fees on the South Orogrande shear zone.
- In the event that the Company should vend or transfer all or part of the South Orogrande shear zone to a third party within one year, the Company shall pay Clearwater 50% of all cash and stock-based consideration that it receives in turn for making the transfer to the third party.
- During the current fiscal year, the Company signed a letter of intent with SNS Silver Inc. ("SNS") whereby SNS could purchase a 50% interest in the company's Petsite Friday Buffalo Gulch properties. The Company received an advance of \$250,000 to enter a definitive agreement within 90 days. This did not occur and the Company paid SNS \$125,000 and issued 625,000 common shares in settlement of the remaining \$125,000.

Premium Exploration Inc.

## Notes to the Consolidated Financial Statements

Canadian Funds

For the Years Ended 31 December 2009 and 2008

e) San Pedro Analco Property, Jalisco, Mexico

By a letter of intent dated 25 August 2006, the Company paid US\$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 agreed to issue a total of 225,000 common shares (issued – 65,000) pay US\$750,000 (paid US\$155,000) and incur a total of US\$1,550,000 in exploration costs. The Company did not complete this option agreement and allowed the option agreement to lapse.

The Company and the property holder continue negotiations, but at the date of these financial statements no definitive agreement exists.

### 5. Equipment

Details are as follows:

	Cost	Accumulated Amortization	Net Book Value
31 December 2009			
Computer equipment	\$ 28,864	\$ 12,443	\$ 16,421
Furniture and equipment	10,364	6,633	3,731
Field equipment	179,421	107,594	71,827
Website software	20,829	11,622	9,207
	<u>\$ 239,478</u>	<u>\$ 138,292</u>	<u>\$ 101,186</u>
31 December 2008			
Computer equipment	\$ 40,551	\$ 12,561	\$ 27,990
Furniture and equipment	39,621	14,205	25,416
Field equipment	314,544	112,657	201,887
Website software	8,800	2,569	6,231
	<u>\$ 403,516</u>	<u>\$ 141,992</u>	<u>\$ 261,524</u>

During the year the Company settled a related party payable (due to a director) of \$54,016 by transferring title of certain equipment with a net book value of \$119,608. This resulted in a loss on disposition of equipment of \$65,592.

### 6. Notes Payable

Details are as follows:

	31 December 2009	31 December 2008
Delbert Steiner, a director, promissory note payable, repaid during the year.	\$ -	\$ 186,972
Barney Green Lee, a director, promissory note payable, repaid during the year.	-	72,810
	-	259,782
Current portion	-	(259,782)
	<u>\$ -</u>	<u>\$ -</u>

During the current fiscal year the Company settled notes payable by paying \$68,621 in cash and issuing 1,625,698 units with a value of \$192,161.

Premium Exploration Inc.

**Notes to the Consolidated Financial Statements**

Canadian Funds

For the Years Ended 31 December 2009 and 2008

**7. 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 2007	31,762,593	\$ 5,272,087	6,456,960	\$ 635,479
Issuance of shares for property	140,000	59,746	-	-
Issuance of shares on private placements	3,400,166	830,992	3,400,166	189,058
Issuance of shares exercise of options	237,500	53,125	-	-
Issuance of shares on warrant exercise	3,926,960	1,481,613	-	-
Fair value transfer on exercise of options	-	48,109	-	-
Fair value transfer on exercise of warrants	-	408,571	(3,926,960)	(408,571)
Expiration of warrants	-	-	(2,530,000)	(226,299)
Returned to treasury	(25,000)	-	-	-
Share issuance costs	-	(58,376)	-	(13,281)
Balance – 31 December 2008	39,442,219	8,095,867	3,400,166	176,386
Issuance of shares for property	25,000	7,625	-	-
Issuance of shares on private placements	20,259,000	2,075,324	20,259,000	1,302,576
Issuance of shares exercise of options	250,000	37,500	-	-
Issuance of shares on warrant exercise	250,000	50,000	-	-
Issuance of brokers shares	805,000	161,000	-	-
Fair value transfer on exercise of options	-	20,841	-	-
Fair value transfer on exercise of warrants	-	8,871	(250,000)	(8,871)
Issuance of shares for resource properties and related	719,000	151,320	-	-
Share issuance costs	-	(139,910)	-	(63,454)
Balance – 31 December 2009	61,750,219	\$ 10,468,438	23,409,166	\$ 1,406,637

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

## Notes to the Consolidated Financial Statements

Canadian Funds

For the Years Ended 31 December 2009 and 2008

### 7. Share Capital – *continued*

#### b) Issued or allotted and fully paid: - *continued*

On 29 May 2009 the Company issued 6,739,000 units on a private placement at \$0.10 per unit for gross proceeds of \$540,922 and settled certain note payables to related parties of \$132,978. 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 \$0.20 in the first year and \$0.50 in the second year. The Company paid commissions of \$28,845.

On 02 September 2009 the Company issued 94,000 shares as part of a drilling contract on the Petsite Friday property, these shares were valued at the exchange price on the day of issuance for \$26,320.

On 23 October 2009 the Company issued 7,145,000 units on a private placement at \$0.20 per unit for gross proceeds of \$1,429,000. 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 an eighteen month period at an exercise price of \$0.30. The Warrants are subject to an acceleration clause which comes into effect once the shares trade above a weighted average price of 200% or more from the exercise price, for any fifteen consecutive trading-day period subsequent to four months from the Closing Date.

In this event, the Company may accelerate the expiry of the Warrants upon providing 60 days notice to the warrant holders. The Company issued 402,500 (valued at \$80,500) shares in finder's fees in relation to this placement of which \$50,419 relates to share issuance costs and \$30,081 relates to warrant issuance costs. The securities issued are subject to a four-month hold period from the date of issuance. The Company paid commissions of \$7,145

On 12 November 2009 the Company issued 6,375,000 units on a private placement at \$0.20 per unit for gross proceeds of \$1,215,817 and settled certain note payables to related parties of \$59,183. 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 an eighteen month period at an exercise price of \$0.30. The Warrants are subject to an acceleration clause which comes into effect once the shares trade above a weighted average price of 200% or more from the exercise price, for any fifteen consecutive trading-day period subsequent to four months from the Closing Date. In this event, the Company may accelerate the expiry of the Warrants upon providing 60 days notice to the Warrant holders. The Company issued 402,500 (valued at \$80,500) shares in finder's fees in relation to this placement of which \$47,127 relates to share issuance costs and \$33,373 relates to warrant issuance costs. The securities issued are subject to a four-month hold period from the date of issuance. The Company paid commissions of \$6,375.

On 10 November 2009 the Company issued 625,000 shares to SNS Silver Corp in settlement of the advance property payment of \$125,000.

On 20 August 2008, the Company issued 3,400,166 units on a private placement at \$0.30 per unit for gross proceeds of \$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 \$0.50 in the first year and \$0.75 in the second year. The Company paid agents commissions of \$66,600.

## Notes to the Consolidated Financial Statements

Canadian Funds

For the Years Ended 31 December 2009 and 2008

### 7. Share Capital - *continued*

#### 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:

	2009	Weighted Average Exercise Price	2008	Weighted Average Exercise Price
Balance - beginning of year	4,205,000	\$0.44	4,880,000	\$0.25
Granted	3,350,000	0.18	950,000	0.42
Exercised	(250,000)	0.15	(237,500)	0.22
Expired / Cancelled	(400,000)	0.33	(1,387,500)	0.31
Balance – end of Year	6,905,000	\$0.25	4,205,000	\$0.44

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

Expiry Date	Exercise Price	2009	2008
1 March 2011	\$0.30	450,000	450,000
15 November 2011	0.20	300,000	300,000
5 March 2012	0.23	1,050,000	1,250,000
24 April 2012	0.35	200,000	200,000
24 April 2012	0.40	130,000	130,000
24 October 2012	0.35	875,000	1,025,000
15 February 2013	0.66	150,000	200,000
7 April 2013	0.33	150,000	150,000
2 May 2013	0.30	500,000	500,000
19 Jan 2014	0.15	1,600,000	-
5 April 2014	0.15	600,000	-
20 Oct 2014	0.25	300,000	-
4 Nov 2014	0.25	600,000	-
		<b>6,905,000</b>	4,205,000

The outstanding options have a weighted-average exercise price of \$0.25 (2008-\$0.31) and the weighted-average remaining life of the options is 3.27 (2008-\$3.44) years. As at 31 December 2009, a total of 5,655,000 (2008 – 5,312,141) of these outstanding options had vested. Total exercisable is 5,130,000 (2008-3,449,641) with a weighted average exercise price of \$0.27 (2008-\$0.31).

#### d) Warrants

	2009	Weighted Average Exercise Price	2008	Weighted Average Exercise Price
Balance - beginning of Year	3,400,166	\$0.50	6,456,960	\$0.28
Issued	20,259,000	0.27	3,400,166	0.50
Exercised	(250,000)	0.20	(3,926,960)	0.38
Expired	-	-	(2,530,000)	0.49
Balance – end of Year	23,409,166	0.30	3,400,166	\$0.50

Premium Exploration Inc.

## Notes to the Consolidated Financial Statements

Canadian Funds

For the Years Ended 31 December 2009 and 2008

### 7. Share Capital - *continued*

#### d) Warrants - *continued*

A summary of outstanding is as follows:

	Price	Expiry	Number of Warrants (i)
Issued 20 August 2008	0.75	26 August 2010	3,400,166
Issued 29 May 2009	0.20	29 May 2011	6,489,000 i
Issued 23 Oct 2009	0.30	23 April 2011	7,145,000 ii
Issued 12 Nov 2009	0.30	12 May 2011	6,375,000 ii
Balance - 31 December 2009			23,409,166

- i) Exercises at \$0.50 in the second year
- ii) Subject to an acceleration clause (*Note 7b*)

#### 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:

	2009		2008	
Total options granted		3,350,000		950,000
Average exercise price (in Cdn\$)	\$	0.18	\$	0.42
Estimated fair value of compensation	\$	352,983	\$	215,240
Estimated fair value per option	\$	0.10	\$	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:

	2009	2008
Risk-free interest rate	1.84%	3.64%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	91.52%	60.00%
Expected option life in years	5.00	5.00

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

	2009		2008	
Number of options vested		2,131,250		2,022,766
Total compensation recognized	\$	302,077	\$	451,667

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.

Premium Exploration Inc.

**Notes to the Consolidated Financial Statements**

Canadian Funds

For the Years Ended 31 December 2009 and 2008

**7. Share Capital - continued**

**f) Contributed Surplus**

Details are as follows:

	2009	2008
Balance - Beginning of Year	\$ 1,453,546	\$ 823,689
Stock-based compensation	302,077	451,667
Fair value of stock options exercised	(20,841)	(48,109)
Fair value of warrants expired	-	226,299
Balance - End of Year	\$ 1,734,782	\$ 1,453,546

**8. 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 \$105,701 (2008 - \$89,602) to a director in his capacity of chief executive officer of which \$71,358 (2008 - \$Nil) was charged to resource property expenditures and 34,343 (2008 - \$89,602) was charged to management fees.
- b) The Company paid management fees of \$101,042 (2008 - \$Nil) to a director in his capacity of president of which \$45,669 (2008 - \$Nil) was charged to resource property expenditures and \$55,373 (2008 - \$Nil) was charged to management fees.
- c) The Company paid consulting fees of \$60,403 (2008 - \$51,085) to an officer of the Company in the capacity of chief financial officer of which \$56,353 (2008 - \$33,470) was charged to shareholder relations, \$4,050 (2008 - \$17,615) was charged to professional fees and \$Nil (2008 - \$33,470) charged to professional fees. During the current year the officer received a retainer of \$15,000 recorded in prepaid expense.
- d) The Company paid management fees of \$39,960 (2008 - \$89,602) to a director of the Company in the capacity of Vice President of mining development of which \$36,535 (2008 - \$89,602) was charged to resource property expenditures and \$3,425 (2008 - \$Nil) to management fees.
- e) The Company paid fees of \$ 34,561 (2008 - \$32,000) to a former director for administrative services which are charged to management fees.
- f) Included in accounts payable is \$2,136 (2008 - \$89,817) owing to directors or officers.
- g) The Company incurred \$Nil (2008 - \$17,293) of interest on notes payable to directors.

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.

**9. Segmented Disclosure**

	Canada	United States	Mexico	Total
<b>31 December 2009</b>				
Resource properties	\$ -	249,889	-	<b>249,889</b>
Equipment	29,359	71,827	-	<b>101,186</b>
Loss for the Year	\$ 1,135,403	1,969,502	(601,380)	<b>2,503,525</b>
<b>31 December 2008</b>				
Resource properties	\$ -	249,889	-	249,889
Equipment	\$ 34,224	107,692	119,608	261,524
Loss for the Year	\$ 1,296,087	382,022	2,367,647	4,045,756

Premium Exploration Inc.

**Notes to the Consolidated Financial Statements**

Canadian Funds

For the Years Ended 31 December 2009 and 2008

**10. Income Taxes**

	<u>2009</u>		<u>2008</u>
Loss for the year	\$ (2,503,525)	\$	(4,045,756)
Adjustments between accounting and taxable income:			
Amortization	52,759		80,240
Loss on disposition of equipment	65,592		-
Unrealized foreign exchange	(125,074)		395,963
Stock-based compensation	302,077		451,667
Share issuance costs	(181,808)		(141,135)
Consolidated income for tax purposes	(2,389,979)		(3,259,021)
Statutory tax rate	30.00%		31.00%
Expected tax expense (recovery)	(716,994)		(1,010,297)
Increase (decrease) in taxes due to:			
Difference in foreign tax rates	(36,340)		-
Change in valuation allowance	753,334		1,010,297
	\$ -	\$	-
	<u>2009</u>		<u>2008</u>
Non-capital loss carry-forwards	\$ 2,141,000	\$	1,453,000
Property, plant and equipment	97,000		143,000
Share issuance costs	83,000		102,000
	2,321,000		1,689,000
Valuation allowance	(2,321,000)		(1,689,000)
Future tax assets	-		-

- b) The Company has tax loss carry-forwards in Canada of approximately \$3,900,000, 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 \$2,350,000, which expire up to 2026. The future potential tax savings associated with these items have not been recognized in these financial statements.

**11. Capital Management**

The Company's capital consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing, selling assets, and incurring debt. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, high liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital to complete its exploration plan, current obligations and ultimately the development of its business, and will need to raise adequate capital by obtaining equity financing, selling assets and incurring debt. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

## Notes to the Consolidated Financial Statements

Canadian Funds

For the Years Ended 31 December 2009 and 2008

### 12. Commitments

The Company has agreements with the President, the CEO and CFO as laid out below:

The President and Director has signed a contract for a term of three years, which expires 30 April 2012. Under the terms of the contract, the President receives a monthly payment of USD\$7,500. This contract may be cancelled upon the Company providing six months advance notice.

CEO and Director has signed a contract for a term of three years which expires 30 April 2012. Under the terms of the contract, the CEO receives a monthly payment of USD\$10,000. This contract may be cancelled upon the Company providing six months advance notice.

CFO has signed a contract for a term of three years which expires 30 April 2012. Under the terms of the contract, the CFO receives a monthly payment of CDN \$5,000. This contract may be cancelled upon the Company providing six months advance notice.

The Company has entered into an operating agreement for its corporate head office premises. The annual lease commitments under the lease are as follows:

2010	\$	41,258
2011		41,258
2012		6,876
<b>Total</b>	<b>\$</b>	<b>89,392</b>

### 13. Subsequent Events

- a) On April 19, 2010, the Company announced that it has engaged Byron Securities Ltd. as lead agent, in a syndicate which also includes Industrial Alliance Securities Inc, for a brokered private placement with the intent of raising \$7,000,000 for ongoing exploration and development activities on the Company's projects. The placement will consist of 23,333,333 units at \$0.30 per Unit. Each Unit will consist of one Common Share and one half of one transferable Share Purchase Warrant. Each whole Warrant will be exercisable at a price of \$0.40 for a period of 18 months from the closing date of the financing. The securities will be subject to a four-month hold period.

The funds raised will include a 7% cash commission and 7% broker's warrants (payable on closing). The private placement is subject to approval from the TSX Venture Exchange.

- b) 450,000 stock options were exercised for gross proceeds of \$96,250 and 2,930,000 warrants were exercised for gross proceeds of \$586,000.

### 14. Comparative Figures

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