



**Management Discussion & Analysis**  
**Year Ended**  
**31 December 2009**

**PREMIUM EXPLORATION INC.**  
**Report to Shareholders and**  
**Management Discussion and Analysis**  
**Of the Financial Position and Results of Operations**  
**For the Year Ended 31 December 2009**

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29 April 2010

**TO OUR SHAREHOLDERS:**

This Management's Discussion and Analysis ("MD&A") supplements, but does not form part of, the consolidated financial statements of the Company and the notes thereto for the year ended 31 December 2009. Consequently, the following discussion and analysis of the financial condition and results of operations for Premium Exploration Inc. ("Premium" or the "Company"), should be read in conjunction with the consolidated financial statements for the year ended 31 December 2009 and related notes therein, which have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied.

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

**FORWARD-LOOKING STATEMENTS**

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

**GENERAL**

Premium Exploration is a mineral exploration company which explores and develops precious metals properties. The Company currently holds four projects in various stages of development from advanced exploration to pre-production projects in Montana and Idaho, USA and Jalisco, Mexico.

Premium's Chrome Mountain Property, located in Montana within the Stillwater Complex, is a 970 hectare, PGM and gold target. The property is located approximately 1.5 km from the East Boulder Mine's underground drift within the ultramafic layered intrusion of the Stillwater Complex. Exploration programs from 2006 through 2008 included the drilling of 19 holes and over 2 km of soil geochemistry which identified an extensive zone of platinum, palladium and rhodium mineralization. Premium's geologists have concluded that the broad and laterally extensive PGM soil anomalies were formed by the same type of processes that formed the Platreef disseminated PGM-Cu-Ni deposits in South Africa.

Premium's Idaho Gold Properties (Buffalo Gulch, Friday-Petsite, and Dixie) reside along a 28 Km strike known as the Orogrande Shear Zone. The Shear Zone is host to four established gold mineralized zones with open-pit heap leach potential. The mineralized zones are being interpreted as the result of a high-grade conduit and feeder model. As of the date of this report, the Company is on the third phase of the planned 12,000 meter (40,000 ft) Drill Program on the Friday-Petsite property.

The Chrome Mountain and two of the Idaho Gold Properties (Buffalo Gulch and Friday/Petsite) are the primary exploration properties held by the Company – see *Mineral Exploration*.

## HIGHLIGHTS, SIGNIFICANT EVENTS AND TRANSACTIONS

During the fourth quarter of 2009, the Company had the following highlights, significant events and transactions:

- October 20<sup>th</sup>, 2009 – Premium amended the terms of a private placement announced on 11 September, 2009. Under the terms of the amended offering, Premium may raise up to \$2.8M through a non-brokered private placement of 14,000,000 Units at \$0.20 per Unit. Each Unit consists of one Common Share and one non-transferable Share Purchase Warrant. Each Share Purchase Warrant is exercisable at a price of \$0.30, for a period of 18 months from the closing date of the financing. The securities are subject to a four-month hold period. 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, Premium may accelerate the expiry of the Warrants upon providing 60 days' notice to the Warrantholders. The closing of the offering will be completed in two tranches. The funds raised will include up to 7% finder's fees in cash or shares.
- October 21, 2009 – Premium engaged Pro-Edge Consultants Inc. out of Toronto, Ontario to provide investor relations services to the Company. Pro-edge was founded in 2001 and is a highly regarded investor relations firm with an international network of investors. Pro-edge will receive a monthly stipend of \$5,000.00 over the term of its contract and has been granted 300,000 stock options with a term of five years at an exercise price of \$0.25.
- October 26, 2009 – Premium completed the first tranche of its non-brokered private placement announced on 20 October 20 2009. As a result, the Company issued 7,145,000 units at a price of \$0.20 per unit for gross total proceeds of \$1,429,000. Each unit consists of one common share and one common share purchase warrant entitling the holder to acquire an additional share at \$0.30 for an eighteen month period. The warrants are subject to an acceleration clause as outlined in the October 20<sup>th</sup> press release. Company has issued 402,500 shares in finder's fees in relation to this placement.
- November 10, 2009 – Premium announced the close of the final tranche of the non-brokered private placement through the issuance of an additional 6,375,000 Units for gross proceeds of \$1,215,817. Each Unit consists of one common share and one common share purchase warrant entitling the holder to acquire an additional share at \$0.30 for 18 months from the closing date of the private placement. The warrants are subject to an acceleration clause as outlined in the October 20<sup>th</sup> press release. The Company issued 402,500 shares in finder's fees in relation to this placement. Upon completion of the second tranche, Premium issued an aggregate of 13,520,000 Units for aggregate gross proceeds in the amount of \$2,704,000. Proceeds from the private placement will be used to continue the development of Premium's key projects and for general working capital.
- November 12, 2009 — Premium announced the Phase II Drill Program on the Friday-Petsite property in Idaho, USA. The program of 1,830 meters (6,000 ft) is part of the ongoing 15,000 meter (44,000 ft) drill program designed to provide additional data for the delineation of a multi-million ounce gold target associated with the Orogrande Shear Zone (OSZ). The Phase II program consists of 6 to 10 HQ core holes designed to intercept gold mineralization associated with the OSZ for up to an additional 560 meters (1837 ft) along strike. Step-out drilling will test strike length to the north and south and will test down dip to a maximum depth of 488 meters (1,602 ft).
- December, 29, 2009 - Premium announced the completion of Phase II Drill Program at the Friday-Petsite gold project in Idaho, USA. This phase was designed to delineate additional gold resources along the OSZ. All drill holes intercepted mineralization at depth and along strike, and included three of the deepest holes drilled on the property which intercepted the mineralized zone 300 meters down-dip from the bottom of historic drill hole PC010.

This program led Premium's team to a better understanding of the geologic and structural controls of mineralization which will be used in the upcoming revision of the inferred 43-101 resource. Drilling totaled 1,969.9 meters (6,463 ft) in six HQ core holes. The holes encountered the same geology, structures and mineralization as seen in the Phase I program, and have extended the zone of alteration along strike to the south and down dip. This program also confirms that the resource remains open to the north, to the south and at depth. The mineralization encountered in the drill holes consists of a broad zone of lower grade gold mineralization associated with the shear zone, surrounding a higher grade gold core which has been intruded by a post mineral Dacite dike. The ongoing drilling was designed to provide additional data for the delineation of a large gold target associated with the Orogrande Shear Zone: the current 531,890 ounces gold (NI 43-101 compliant) resource is contained in 15.17 million tonnes at an average grade of 1.1 g/t Au, utilizing a cutoff of 0.5 g/t.

#### EVENTS SUBSEQUENT TO 31 DECEMBER 2009

- January 13, 2010 – Premium received assay results from the first three holes of the Phase II Drill Program. These holes confirmed the continuity of the high-grade gold zone below the current bulk-tonnage 531,890 oz inferred gold resource currently hosted in 350 meters of strike length down to a depth of 150 meters.

*Highlights from the drill program include:*

<b>PFR2009-10</b>	<b>2.66 g/t gold over 198.4 meters (650.9 feet) including</b> 3.81 g/t gold over 121.1 meters (397.2 feet) including 9.16 g/t gold over 25.3 meters (83.0 feet) including 30.60 g/t gold over 1.8 meters (6.0 feet)
<b>PFR2009-11</b>	<b>2.94 g/t gold over 73.5 meters (241.1 feet) including</b> 10.57 g/t gold over 17.2 meters (56.4 feet) including 160.63 g/t gold over 0.9 meters (3.0 feet)
<b>PFR2009-12</b>	<b>1.00 g/t gold over 83.4 meters (273.6 feet) including</b> 3.47 g/t gold over 2.2 meters (7.2 feet)

The drill program consisted of six HQ core holes totaling 1,969.9 meters (6,463 feet) These results compare well to historic hole PC010 which returned grades of 3.81 g/t over 85.4 meters (including 10.8 g/t over 22.90 meters and 17.66 g/t over 10.7 meters). The initial results from this program support the current understanding of the geologic and structural controls to mineralization and will be used in the upcoming revision to the inferred 43-101 resource. This will likely result in an upgrade of a portion of the existing resources and may increase the resource in total.

- January 27, 2010 - Premium announced the appointment of Mr. Patrick Sam Yue and Dr. Guojian Xu to the Company's Board of Directors. Mr. Sam Yue's experience in international finance and Dr. Xu's geological knowledge and technical expertise in exploration will be extremely valuable for the development of the Company and its assets. A substantial portion of Premiums' last private placement came from Ausmon Resources Limited of Australia and was based on a review of Premium's assets by Mr. Sam Yue and Dr. Xu. Premium also announced the resignation of Salvador Huerta and Vanessa Bachman from the Board of Directors.
- February 22, 2010 - Premium received assays from the final three holes of the Phase II Drill Program at the Friday-Petsite gold project. These holes confirmed the presence of the mineralized Orogrande Shear Zone ("OSZ"), 425 meters south of the current 531,890 oz inferred gold resource, increasing the project strike length over 120%. This may impact the size of the resource along strike with the Company's upcoming work programs.

**Highlights from the program include:**

<b>PFR2009-8:</b>	<b>0.55 g/t gold over 124.86 meters (407.0 ft) including</b> 0.84 g/t gold over 14.63 meters (48.0 ft)
<b>PFR2009-9:</b>	<b>0.88 g/t gold over 6.4 meters (21.0 ft) and</b> 2.39 g/t gold over 4.57 meters (15.0 ft) and 0.99 g/t gold over 11.58 meters (38.0 ft)
<b>PFR2009-13:</b>	<b>1.25 g/t gold over 26.52 meters (87.0 ft) including</b> 4.39 g/t gold over 5.49 meters (18.0 ft)

- March 23, 2010 - Premium announced that the existing NI43-101 inferred resource has been updated to conform with the revised geological and structural model at the Friday-Petsite gold project located along the OSZ. The Company has initiated a scoping (preliminary assessment) study in preparation for a future prefeasibility study. Snowden Mining Industry Consultants (Snowden) was retained and involved in revising the geologic model for the resource estimate, utilizing their engineering and geological expertise, in order to model the deposit applying the best industry practices that will benefit Premium as the project progresses.

A scoping study is underway to determine development parameters for a potential mine. This includes metallurgical test work on representative samples to provide a preliminary assessment of potential methods for efficient economic extraction of the gold and water baseline studies. The in-house modeling of geology, structures and mineralization defined three domains used for the estimation and provided tight constraints for the estimation procedure. The internal estimate was completed with the objective of quantifying gold ounces within the target area as well as highlighting areas for the next phase of drilling. **Based on the internal revision, the deposit is estimated to contain an inferred resource with approximately 17,000 kilograms (550,000 ounces) of gold in 15 million tonnes at an average grade of 1.13 g/t at a cutoff grade of 0.50 g/t.**

- April 13, 2010 – Premium announced the Phase III Drill Program. The program is designed to delineate the target mineralization adjacent to the existing 550,000 oz gold resource with the aim of increasing the size of the resource and upgrading the resource categories. The program is estimated to have 33 holes ranging in depth from 150 meters (500 ft) to 610 meters (2,000 ft) for a total of 10,000 meters (33,000 ft) of drilling. Two-thirds of the footage from this program will be used for resource definition and in-fill drilling within the immediate “target” zone and one-third will be used to step-out along strike to the north, south and down-dip. Drilling will also provide data for the scoping (preliminary assessment) study announced 23 March 2010.
- April 23, 2010 - Premium announced a brokered private placement with the intent of raising \$7,000,000 for ongoing exploration and development of Premium’s projects. Byron Securities Ltd. was engaged as lead agent, in a syndicate which includes Industrial Alliance Securities Inc. 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.

## **MINERAL EXPLORATION**

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

The Chrome Mountain Project is a platinum, palladium, rhodium and gold target consisting of 970 hectares and is located approximately 1,500m from the East Boulder Mine within the Stillwater Complex. Premium is reviewing exploration results to date on this property. Exploration programs from 2006 to 2008 included the drilling of 19 holes and over 2 km of soil geochemistry which identified an extensive zone of platinum, palladium and rhodium mineralization. Exploration and drilling in 2007 and 2008 focused on a large PGM soil anomaly measuring 2,500 metres x 800 metres, which hosts up to 1.2 g/t Pt plus Pd Rd over 116.7 metres at surface and encountered mineralization similar to a combination of Platreef and UG2 styles of mineralization.

Premium's geologists believe that the "A" and "B" chromitites have not yet been intersected by drilling to date. Although the mineralized intercepts contained chromites, they appear to be above the zone that hosts the "A" and "B" chromitite horizons. Dr. Reid Keys, Ph.D., of Monash University concluded that the broad and laterally extensive PGM soil anomalies were formed by the same type of processes that formed the Platreef disseminated PGM-Cu-Ni deposits in South Africa.

An exploration program has been designed to follow up on the discovery of the new Platreef exploration model and is scheduled to start in Q3 of 2010. Platreef is one of the most profitable styles of mineralization as it is located near surface, which lends itself to simple surface mining procedures and typically has large tonnages. Consequently, the mining methods benefit from the economics of scale.

The Pine Claim fault on the property is a conduit for gold mineralization. The fault remobilized PGM's associated with the "A" and "B" chromitite horizons. Premium will conduct a surface mapping and sampling to further define the limits of the gold bearing system of the Pine Claim Shear Zone.

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

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

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

The Buffalo Gulch Property is comprised of 107 unpatented quartz lode mining claims and is located at the northern end of the Orogrande Shear Zone. The property is under a Letter of Intent to Joint Venture the property with the Clearwater Mining Corporation and is being permitted for production.

A Memorandum of Understanding (MOU) is being finalized between the BLM and Elk City Mining, LLC (ECM).

An exploration program of ground geophysics, soil sampling along mineralized horizons and mapping is being developed. A preliminary drill program is being developed for Buffalo Gulch which will include 17 holes totalling 3,700 meters. Drilling is designed to test the high-grade mineralization below the currently defined Buffalo Gulch deposit as well as along strike. The program is expected to start in Q3 of 2010.

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

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

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

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

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

Premium has developed a 12,000 meter (40,000 ft) program designed to systemically test the 28 kilometre Orogrande Shear Zone (OSZ) modelled as the conduit for the high grade zones and feeder for the disseminated gold zones. As of the date of this report, Premium has completed two phases of drilling and has commenced on a third program.

### **Phase I Drill Program**

This program consisted of seven HQ core holes which were drilled to a depth of 153 meters (502 ft) and total footage drilled equalled 853.4 meters (2,800 ft.). This first phase of drilling which commenced in March 2009 and completed in July 2009, was designed to further delineate the high-grade component of the resource, test the continuity of mineralization on the OSZ along strike to the north and south of the existing resource, and to provide minor in-fill drilling. Results from this program will be used to reassess the NI 43-101 compliant Inferred Resource of 531,890 troy ounces Au, contained in 15.17 million tonnes averaging 1.1 g/t gold (0.032 oz/ton) at a cut-off of 0.514 gram per metric tonne (0.017 oz/ton).

The geologic model developed by Premium's geologists, confirmed a steep easterly dip and intersected the OSZ to the north and south of the main zone of mineralization. Drill holes PFR2009-6 and PFR2009-7 (located south of Quartz Creek) intersected intensely sheared and altered Muscovite-Sericite Schist with associated sulphides which are indicative of OSZ mineralization as found in the main zone of mineralization. These two holes also extend the strike length of the OSZ by 100 meters to the south and are located on the north end of a 1,200 meter (4,000 foot) gold in soil geochemical anomaly. This confirms the probability that the anomaly is likely related to the continuation of the OSZ to the south.

PFR2009-3, the northern-most drill hole in the program, intersected shear zone material and has increased the strike length of the OSZ by 75 meters to the north. Based on drilling by previous operators and core logging of the new core, gold mineralization is found to occur in two distinct forms; primary fine grained gold mineralization associated with Pyrite, Arsenopyrite, and likely Lollingite (iron arsenide), and a second coarser gold phase which is likely associated with a post-mineral Dacite Dike remobilizing the primary gold. Additional research will be conducted to determine if there is any significance to the Lollingite-gold association which may be useful in future drilling programs. The host rock in the shear zone is predominately Muscovite-Sericite Schist with sericite altered Quartz Monzonite to a lesser extent. Pyrite, Arsenopyrite and Lollingite are disseminated and also occur within quartz/carbonate veinlets.

Highlights from the Phase I Drill Program are listed below:

<b>Friday-Petsite 2009 Phase I Results</b>				
<b>Hole ID</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Length (m)</b>	<b>Au (g/t)</b>
<b>PFR2009-01</b>	<b>0</b>	<b>37.7</b>	<b>37.7</b>	<b>0.56</b>
<i>including</i>	23.16	30.33	7.16	1.2
Dike	37.7	54.86	17.16	n/a
	<b>55.84</b>	<b>73.76</b>	<b>17.92</b>	<b>5.02</b>
<i>including</i>	63.58	69.31	5.73	13.58
<i>including</i>	63.58	65.17	1.58	35.55
<b>PFR2009-02</b>	<b>1.52</b>	<b>41.09</b>	<b>39.56</b>	<b>1.77</b>
<i>including</i>	32.92	41.09	8.17	3.37
Dike	41.09	60.05	18.96	n/a
	114.6	116.28	1.68	1.35
<b>PFR2009-03</b>	<b>0.91</b>	<b>9.85</b>	<b>8.95</b>	<b>1</b>
<i>including</i>	0.91	5.18	4.27	1.49
<b>PFR2009-04</b>	<b>15.24</b>	<b>28.13</b>	<b>12.89</b>	<b>0.88</b>
<b>PFR2009-05</b>	<b>0</b>	<b>76.05</b>	<b>76.05</b>	<b>1.2</b>
<i>including</i>	39.93	76.05	36.12	1.84
<i>including</i>	65.53	76.05	10.52	3.76
<i>including</i>	68.28	74.07	5.79	5.95
<i>including</i>	71.17	74.07	2.9	8.81
Dike	76.05	94.79	18.75	n/a
	<b>94.79</b>	<b>137.46</b>	<b>42.67</b>	<b>1.13</b>
<i>including</i>	94.79	106.07	11.28	3.51
<i>including</i>	98.76	103.33	4.57	7.73
<b>PFR2009-06</b>	1.83	47.12	45.29	0.64
<i>including</i>	12.5	28.04	15.54	1.06
<b>PFR2009-7</b>	0	97.23	97.23	0.61
<i>including</i>	36.12	67.97	31.85	1.16
<b>Note: True Widths are estimated to be between 75% and 100% of the drilled interval</b>				

## Phase II Drill Program

The Phase II Drill Program totaled 1,969.9 meters (6,463 ft) and consisted of six HQ core holes. This second phase of drilling commenced in September 2009 and was completed in December 2009. The program was designed to delineate the northern and southern extension of mineralization for an additional strike length of 560 meters; 185 meters north and 375 meters south of the existing resource as well as down dip to a depth of 275 meters (900 ft.).

This phase of the program included three of the deepest holes drilled on the property and intercepted the mineralized zone 300 meters down-dip from the bottom of historic drill hole PC010. The current inferred resource of 531,890 ounces of gold is hosted in 350 meters (1,148 ft) of strike length and down to a depth of 150 meters (492 ft) from surface. PC010 returned grades of 3.81 g/t Au over 85.4 meters, (including 10.8 g/t over 22.90 meters, and 17.66 g/t over 10.7 meters). PFR2009-11, the first hole completed in this segment of the program intercepted the down-dip extension of mineralization encountered in PC010, and was mineralized to a depth of 490 meters (1,608 ft) which is triple the depth of historic PC010.

The drill holes in this phase encountered the same geology, structures and mineralization as seen in the Phase I program and all of the holes intercepted mineralization at depth and along strike and the gold mineralization remains open to the north, south and at depth. All holes intercepted targeted mineralization with several holes terminating in mineralization at depth. The results of the Phase II program have led Premium's team to a better understanding of the geologic and structural controls of mineralization and will be used in the upcoming revision of the Inferred 43-101 resource. The mineralization encountered in the drill holes consists of a broad zone of lower grade gold mineralization associated with the shear zone, surrounding a higher grade gold core which has been intruded by a post mineral Dacite Dike.

Results from PFR2009-08 and PFR2009-09 are significant as they confirm gold mineralization 425 meters south of the current inferred resource indicate by the strong, contiguous, 1,150 meter gold in soil geochemical anomaly. This has doubled the strike length of the project and could significantly impact the size of the resource along strike with the upcoming work programs

*Highlights from the Phase I Drill Program are listed below:*

<b>Friday-Petsite 2009 Phase II Results</b>				
<b>Hole ID</b>	<b>From (m)</b>	<b>To (m)</b>	<b>Length (m)</b>	<b>Au (g/t)</b>
<b>PFR2009-08</b>	23.2	147.2	124.1	0.55
<i>including</i>	59.7	93.3	33.5	0.68
<i>including</i>	107	121.6	14.6	0.84
<b>PFR2009-09</b>	<b>7</b>	<b>13.4</b>	<b>6.4</b>	<b>0.88</b>
<i>including</i>	45.4	50	4.6	2.39
<i>including</i>	98.8	110.3	11.6	0.99
<b>PFR2009-10</b>	<b>173.4</b>	<b>371.8</b>	<b>198.4</b>	<b>2.7</b>
<i>including</i>	232.2	353.3	121.1	3.8
<i>including</i>	238.7	264.0	25.3	9.2
<i>including</i>	239.3	241.1	1.8	30.6
<i>including</i>	352.9	353.3	0.4	285.9
<b>PFR2009-11</b>	<b>266.1</b>	<b>339.6</b>	<b>73.5</b>	<b>2.9</b>
<i>including</i>	277.4	294.6	17.2	10.6
<i>including</i>	290.5	291.4	0.9	160.6
<b>PFR2009-12</b>	<b>281.6</b>	<b>365.0</b>	<b>83.4</b>	<b>1.0</b>
<i>including</i>	362.8	365.0	2.2	3.5
<b>PFR2009-13</b>	<b>126.5</b>	<b>153</b>	<b>26.5</b>	<b>1.25</b>
<i>including</i>	126.5	132	5.5	4.39
<i>including</i>	130.2	132	1.8	11.99
<ul style="list-style-type: none"> <li>The gold grade calculation is a weighted mean with no top cut, and no bottom cut. The grade calculation includes internal waste and low grade sections.</li> <li>True widths are estimated to be between 65% and 75% of the drilled interval.</li> </ul>				

## Revised Resource Estimate

In March 2010, Premium completed a resource estimate revision and initiated a scoping (preliminary assessment) study in preparation for a future feasibility study. Premium retained Snowden Mining Industry Consultants to assist in the revision of the geological model for the in-house resource estimate. In addition, Snowden will conduct an independent assessment of the in-house estimate on the Friday-Petsite project to meet the requirements for an independent Technical Report when reporting mineral resources for a project. The assessment will require a property visit and validation of the data used for the in-house estimate. Contingent on site conditions, the independent review may be completed by Q3 of 2010. The resource estimate is based on historic and current data generated on the Friday-Petsite project by Premium Exploration and previous operators. Snowden utilized their engineering and geological expertise to model the deposit and apply best industry practices.

The revised estimate conforms well to the 2008 NI43-101 compliant inferred resource estimate. The NI43-101 Technical Report was filed on SEDAR on 29 January 2009.

Upcoming exploration will target the Orogrande Shear Zone directly adjacent to the modeled inferred resource (on strike to north and south and down dip). The target may contain 15,000,000 to 25,000,000 tonnes of mineralized material grading from 0.7 to 1.2 gram/tonne. The target may contain 337,000 to 964,000 ounces if intercepted by future exploration. The target tonnage and grade is conceptual in nature and there has been insufficient exploration to define a mineral resource and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

The target tonnage and grade has been estimated by projecting potential mineralization to the north and south along strike and to the depth of the deepest intercepts in core drilling. The projections are in areas where drilling has intercepted mineralization but there is insufficient density of data to be included in the Premium's new model. Ounces have increased due to a slight increase in grade and a slight decrease in tonnage at a 0.5 g/t cut-off.

The in-house modeling of geology, structures and mineralization defined three domains used for the estimation and provided tight constraints for the estimation procedure. The internal estimate was completed with the objective of quantifying gold ounces within the target area as well as highlighting areas for the next phase of drilling. **Based on the internal revision, the deposit is estimated to contain an inferred resource with approximately 17,000 kilograms (550,000 ounces) of gold in 15 million tonnes at an average grade of 1.13 g/t at a cutoff grade of 0.50 g/t.**

The grade is estimated based on the average grade calculated during construction of three domains developed during the modeling utilizing a 0.5 g/t cutoff. Domain-One has an estimated average grade of 1.24 g/t Au, while Domain-Two averages 1.13 g/t Au and Domain-Three averages 0.74 g/t Au. Preliminary geostatistical evaluation was used to define three separate domains with distinct geologic or mineralization characteristics. A top cut (grade capping) analysis of the composite data to determine appropriate top cuts for each domain was conducted. The top cut for Domain-One is 14.53 g/t, for Domain-Two is 13.97 g/t and for Domain-Three is 5.62 g/t. The top cut for Domain-Three is much lower due to the lack of a sufficient number of sample points.

126 drill hole intercepts were used to develop the geologic model and define the 3 primary domains out of a total of 195 holes drilled on the project, which consisted of 150 reverse circulation holes and 45 core holes. Additional data used to develop the model included surface geologic maps, geochemical maps and topographic maps. In preparation for the estimate, the drill hole collar data, geologic data, survey data and assay data were compiled and cross-checked to existing original data. A specialized mineral modeling program (GEMCOM, [www.gemcomsoftware.com](http://www.gemcomsoftware.com)) was used for evaluation and interpolation of the data and is instrumental in the development of the model.

In addition to drilling, scoping has commenced to determine development parameters for a potential mine. This will include metallurgical testwork on representative samples to provide a preliminary assessment of potential methods for efficient economic extraction of the gold and water baseline studies. The recent detailed modeling work incorporating geostatistical tools validates the revised geologic model and clearly defines the best areas for additional drilling to test potential expansions to the recent estimate.

### **Phase III Drill Program**

In April 2010, Premium commenced Phase III of the 12,000 meter (40,000 ft) program designed to systemically test the 28 kilometre Orogrande Shear Zone (OSZ). The program is designed to delineate the target mineralization adjacent to the existing 550,000 oz gold resource with the aim of increasing the size of the resource and upgrading the resource categories.

The Phase III program is estimated to have 33 holes ranging in depth from 150 meters (500 ft) to 610 meters (2,000 ft) for a total of 10,000 meters (33,000 ft) of drilling. Two-thirds of the footage from this program will be used for resource definition and in-fill drilling within the immediate "target" zone and one-third will be used to step-out along strike to the north, south and down-dip. Drilling will also provide data for the scoping (preliminary assessment) study announced 23 March 2010.

### ***Dixie, Idaho, USA***

The Dixie Property consists of 17 claims and is located near the South Orogrande Shear Zone. It is not part of the South Orogrande Shear Zone, but may be associated with a second shear zone in the area that is similar to the South Orogrande Shear Zone. The underlying geology is that of igneous rocks intruding early Precambrian metamorphic rocks. Anomalous gold areas have been identified by stream sediment and soil geochemical sampling. Premium intends to complete a general exploration program to investigate the anomalous areas in order to locate targets for drilling. The property is classified by Micon as an early-stage exploration property where geochemical surveys have outlined areas of anomalous gold values.

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

The San Pedro Analco property consists of 1,136 hectares and is located in Jalisco, Mexico, approximately 70 Km northwest of Guadalajara. Premium has an option to earn 100% of the property by making cash payments and exploration expenditures over three years. San Pedro is a past producer with production from five underground mines.

A Phase I Exploration Program was completed in 2007 and included preliminary sampling and mapping in four of five of the larger mines. A total of 1,600 metres of mine workings were mapped from which 71 chip samples and nine grab samples (from ore chutes) were collected from five mines. A Phase II Exploration Program has been designed and involves the review and compilation of an independent engineering report, historical data, and previous drill and sample data. The compiled information will be field tested in order to confirm the reserves that have already been calculated in the area. The exploration program will lay the foundation for the design and implementation of the drill program on the property. The drill program will test several targeted vein systems.

The Company did not make the required option payments in September 2009 and is in default on this contract. The contract is currently under negotiation.

**SELECTED ANNUAL INFORMATION**

Fiscal Year Ended	December 2009	December 2008	December 2007 Restated	December 2006
Total Revenues	\$Nil	\$Nil	\$Nil	\$Nil
Net Loss from Continuing Operations	\$2,445,400	\$4,045,756	\$3,615,284	\$1,106,346
Net Loss	\$2,503,525	\$4,045,756	\$3,615,284	\$1,106,346
Basic and Diluted Loss Per Share	\$(0.05)	\$(0.11)	\$(0.14)	\$(0.06)
Total Assets	\$1,562,271	\$817,471	\$1,474,014	\$1,571,021
Long-Term Financial Liabilities	\$Nil	\$Nil	\$Nil	\$17,565
Cash Dividends Declared	\$Nil	\$Nil	\$Nil	\$Nil

**RESULTS OF OPERATIONS**

The loss for the year ended 31 December 2009 was \$2,503,525, which compares to a loss of \$4,045,756 in the same period of 2008. The loss for the three month period ended 31 December 2009 was \$1,361,136, which compares to a loss of \$912,975 in same period of 2008. The main fluctuations in costs are as follows:

In \$ thousands	<b>3 months 2009</b>	3 months 2008	<b>12 months 2009</b>	12 months 2008
<b>Resource property expense</b>	<b>\$ 697</b>	\$ 434	<b>\$ 1,269</b>	\$ 2,049
Variance increase (decrease)	<b>263</b>		<b>(780)</b>	

The vast majority of the exploration costs this year relate to the drilling program undertaken in Idaho and the drop from the prior periods is a result in a narrowly defined focus and aggressive cost monitoring. These hard learned lessons bode well for the future of the Company. In the third quarter, the Company completed the first phase of drilling in Idaho. The fourth quarter includes a second phase of drilling and costs are expected to rise significantly as management continues to define the resource through further drilling.

In \$ thousands	<b>3 months 2009</b>	3 months 2008	<b>12 months 2009</b>	12 month 2008
<b>Stock-based compensation</b>	<b>\$ 58</b>	\$ 91	<b>\$ 302</b>	\$ 451
Variance increase (decrease)	<b>(33)</b>		<b>(149)</b>	

This is a non-cash expense related to the granting of stock awards to officers, directors and consultants and fluctuates based on the whims of the Black-Scholes calculations. There have been no substantial changes in the nature and timing of grants. In the fourth quarter however, we expect to see an increase due to a single grant of options to the CEO as required by the signing agreement.

In \$ thousands	<b>3 months 2009</b>	3 months 2008	<b>12 months 2009</b>	12 month 2008
<b>Management fees</b>	<b>\$ 55</b>	\$ 41	<b>\$ 215</b>	\$ 261
Variance increase (decrease)	<b>14</b>		<b>(45)</b>	

The decrease in management fees relates to the cost control efforts of the Company. Our expectation is that these costs will start to return to normal levels as we have recently acquired a new CEO and expanded the office base by one party.

In \$ thousands	<b>3 months 2009</b>	3 months 2008	<b>12 months 2009</b>	12 months 2008
<b>Shareholder relations</b>	<b>\$ 202</b>	\$ 18	<b>\$ 317</b>	\$ 444
Variance increase (decrease)	<b>184</b>		<b>(127)</b>	

Management has focused on putting the money into the ground and not on corporate communication. Our anticipation is that these levels will rise as the anticipated results provide increased interest in the properties and a need to convey results and activities. During the fourth quarter management has entered into to further support contracts.

In \$ thousands	<b>3 months 2009</b>	3 months 2008	<b>12 months 2009</b>	12 months 2008
<b>Professional fees</b>	<b>\$ 25</b>	\$ 9	<b>\$ 124</b>	\$ 169
Variance increase (decrease)	<b>16</b>		<b>(45)</b>	

The prior period results included unexpected legal and audit costs which have been controlled in the current year. The change in this 3 months represents audit fees that were higher than anticipated or accrued.

In \$ thousands	<b>3 months 2009</b>	3 months 2008	<b>12 months 2009</b>	12 months 2008
<b>Travel</b>	<b>\$ 43</b>	\$ 32	<b>\$ 112</b>	\$ 133
Variance increase (decrease)	<b>11</b>		<b>(21)</b>	

The reduction is entirely due to cost controls relating to management's focus on same and the decrease in travel to Mexico.

In \$ thousands	<b>3 months 2009</b>	3 months 2008	<b>12 months 2009</b>	12 months 2008
<b>Office and general</b>	<b>\$ 23</b>	\$ 3	<b>\$ 59</b>	\$ 119
Variance increase (decrease)	<b>20</b>		<b>(60)</b>	

The reduction is due to the Company's focus on reducing and controlling expenditures.

In \$ thousands	<b>3 months 2009</b>	3 months 2008	<b>12 months 2009</b>	12 months 2008
<b>Transfer agent and filing fees</b>	<b>\$ 6</b>	\$ 27	<b>\$ 39</b>	\$ 23
Variance increase (decrease)	<b>(21)</b>		<b>16</b>	

The increase is primarily due to costs and related fees associated with the Company's private placements issued during the year ended 31 December 2009.

## **SUMMARY OF QUARTERLY RESULTS**

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

Three Months Ended	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08
Total Revenues	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Loss from continuing operations	\$1,361,136	\$444,885	\$313,830	\$383,674	\$912,975	\$615,781	\$989,590	\$1,527,410
Loss for the period	\$1,361,136	\$444,885	\$313,830	\$383,674	\$912,975	\$615,781	\$989,590	\$1,527,410
Loss per share	(0.02)	(0.01)	(0.01)	\$(0.01)	\$(0.03)	\$(0.02)	\$(0.02)	\$(0.04)

## **OUTSTANDING SHARES**

As at 31 December 2009, the Company had 61,750,219 common shares issued and outstanding versus 39,442,219 common shares issued and outstanding at December 31, 2008. The fully diluted amount of 92,064,385 represents options of 6,905,000 and warrants of 23,409,166.

Issued and diluted shares outstanding as at the date hereof are 65,130,219. The fully diluted amount of 92,064,385 represents the exercise of 450,000 stock options for gross proceeds of \$96,250 and 2,930,000 warrants which were exercised for gross proceeds of \$586,000.

## **FINANCIAL POSITION AND LIQUIDITY**

The Company's working capital at December 31, 2009 was \$980,478 consisting mostly of cash compared with a working capital deficit of \$560,393 at December 31, 2008. The Company holds no asset backed commercial paper.

Cash used in operating activities during the Current Year totalled \$2,307,767 (Comparative Year - \$2,995,842). A decrease in resource property expenditures, shareholder relations, stock-based compensation, office and general, and professional fees are the main reasons for the lower cash used in the Current Year.

Cash provided by investing activities in the Current Year totalled \$112,971 (Comparative Year – used \$47,593) primarily due to property advances of \$250,000, net of purchase of equipment of \$12,029 and repayment of advances of \$125,000.

Financing activities provided \$3,173,251 in the Current Year from the issuance of shares for \$1,970,663 and exercise of warrants of \$1,302,576, offset by share issuance costs of \$42,364 and repayment of notes payable of \$57,624. (Comparative Year – \$2,511,502 from net proceeds of private placements, the exercise of warrants and issuance of notes payable, offset by share issuance costs).

## **CAPITAL RESOURCES AND 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.

The 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.

The 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.

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

Management believes it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. Although the Company successfully completed two financings in 2009, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company had no off-balance sheet arrangements as at 31 December 2009 and as at the date hereof.

### **INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than in the first quarter of 2011, with restatement of comparative information presented. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency, certain contractual arrangements, capital requirements and compensation arrangements. The Company is currently evaluating the future impact of IFRS on its financial statements and will continue to invest in training, financial information systems and additional resources to ensure a timely conversion.

The Company expects its first consolidated financial statements presented in accordance with IFRS to be for the three month period ended March 31, 2011, which includes presentation of its comparative results for fiscal 2010 under IFRS. In order to prepare for the changeover to IFRS, the Company has developed an IFRS conversion plan comprised of three phases:

### **INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) - continued**

Phase description and status

#### 1. Preliminary planning and scoping

This phase involves development of the IFRS conversion plan. The IFRS conversion plan includes consideration of the impacts of IFRS on the Company's consolidated financial statements, internal control over financial reporting, information systems and business activities such as foreign operations, compensation metrics, personnel and training requirements. Based on Management's review of IFRS and current Company processes, minimal impact is expected on information systems, operations of foreign subsidiaries and compensation metrics. An initial assessment identified standards of high or medium priority to the Company, based on a number of factors. The International Accounting Standards Board has activities currently underway which may, or will, change the standards effective upon the Company's adoption of IFRS, and therefore may impact this initial high level assessment. The Company will assess any such change as a component of its Detailed Impact Assessment phase and update its IFRS conversion plan as appropriate.

## 2. Detailed impact assessment

This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company's consolidated financial statements, along with quantification of impact on key line items and disclosures. The assessment to date is that the Company has not identified any differences between its existing accounting policies under Canadian GAAP to those it expects to apply in its first IFRS financial statements. The International Accounting Standards Board ("IASB") continues to amend and add to current IFRS standards with several projects underway. The Company's transition plan includes monitoring actual and anticipated changes to IFRS and related rules and regulations and assessing the impacts of these changes on the Company and its financial statements, including expected dates of when such impacts are effective.

## 3. Implementation

This phase will embed the required changes for conversion to IFRS into the underlying financial disclosure and reporting process and business processes. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant consolidated financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS consolidated financial statements.

## **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.

## **CHANGES IN 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.

## **CHANGES IN ACCOUNTING POLICIES - CONTINUED**

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

### *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.

## **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\$ 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.

**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.

## **DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Consistent with other companies in the mineral exploration industry, Premium has no source of operating revenue. The Company's 31 December 2009 consolidated financial statements provide a breakdown of the general and administrative expenses for the year under review and an analysis of the capitalized and expensed exploration and development costs incurred on its mineral properties.

## **INVESTOR RELATIONS ACTIVITIES**

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

## **RISK FACTORS**

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

Exploring and developing mineral resource projects bears a high potential for all manner of risks. Additionally, few exploration projects successfully achieve development due to factors that cannot be predicted or foreseen. Moreover, even one such factor may result in the economic viability of a project being detrimentally impacted such that it is neither feasible nor practical to proceed. The Company closely monitors its activities and those factors that could impact them, and employs experienced consulting, engineering, insurance and legal advisors to assist in its risk management reviews.

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

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

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

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

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Chief Executive Officer and Chief Financial Officer ("CFO") are responsible for designing internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with Canadian GAAP. The design of the Company's internal control over financial reporting was assessed as of the date of this Management Discussion and Analysis.

Based on this assessment, it was determined that certain weaknesses existed in internal controls over financial reporting. As indicative of many small companies, the lack of segregation of duties and effective risk assessment were identified as areas where weaknesses existed. The existence of these weaknesses is to be compensated for by senior management monitoring, which exists. The officers will continue to monitor very closely all financial activities of the Company and increase the level of supervision in key areas. It is important to note that this issue would also require the Company to hire additional staff in order to provide greater segregation of duties. Since the increased costs of such hiring could threaten the Company's financial viability, management has chosen to disclose the potential risk in its filings and proceed with increased staffing only when the budgets and work load will enable the action. The Company has attempted to mitigate these weaknesses, through a combination of extensive and detailed review by the CFO of the financial reports, the integrity and reputation of senior accounting personnel, and candid discussion of those risks with the audit committee.

**APPROVAL**

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

Respectfully submitted  
On Behalf of the Board of Directors

*"Delbert W. Steiner"*

Delbert W. Steiner  
President