



**PREMIUM EXPLORATION INC.**

**REPORT TO SHAREHOLDERS**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**31 March 2009**

**PREMIUM EXPLORATION INC.**  
**Report to Shareholders and Management Discussion and Analysis**  
**of the Financial Position and Results of Operations**  
**For the Quarter Ended March 31, 2009**

**May 29, 2009**

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**TO OUR SHAREHOLDERS:**

This Management Discussion and Analysis (“MD&A”) supplements, but does not form part of, the Interim Consolidated Financial Statements for the quarter ended March 31, 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 unaudited Interim Consolidated Financial Statements for the quarter ended March 31, 2009 and related notes therein, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”), consistently applied.

Discussion of the Company, its operations and associated risks are 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. Additional information regarding the Company, including copies of the Company’s continuous disclosure materials is available on the Company’s website at [www.premiumexploration.com](http://www.premiumexploration.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com)

**GENERAL**

Premium Exploration is a mineral exploration company that explores and develops precious metals properties. The Company’s portfolio holds four projects in various stages of development from advanced exploration to pre-production projects in Montana and Idaho, USA and Jalisco, Mexico. The Company’s vision is to become a near term, mid-cap growth Company advancing projects into production.

Premium’s Chrome Mountain Property, located in Montana, 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 ultra-mafic layered intrusion of the Stillwater Complex. Chrome Mountain is being explored as part of a joint venture agreement with Beartooth Platinum Corp., and is currently in its second year of the agreement.

Premium’s Idaho Gold Properties (Buffalo Gulch and Friday-Petsite) 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. Premium’s geologists have interpreted the mineralized zones as the result of a high-grade conduit and feeder model. The Company has plans to drill the Friday-Petsite property in June 2009 and to advance the Buffalo Gulch property into production.

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

## **SIGNIFICANT EVENTS AND TRANSACTIONS**

During the first quarter of 2009, and though the date of this report, the Company conducted the following significant events or transactions:

- January 9, 2009 – Premium announced that the Company was monitoring the progress of the merger between Premium’s joint venture partner, Beartooth Platinum Corp. (“BTP”) and Kria Resources. Assay results from the 2008 Drill Program were pending at the time of this press release.
- January 13, 2009 – The Company announced that it had granted 2,050,000 stock options to directors, officers and consultants of the Company. The options are exercisable at a price of \$0.15 for a period of five years. The Company used the Black-Scholes model to value the options and recognized the fair market value at \$137,000. Full details of the assumptions used are in the financial statements for the period.
- January 15, 2009 – Premium announced that their geologists had developed the first high-grade gold conduit and feeder model for the 28 Km Orogrande Shear Zone, located in Idaho, USA.
- February 18, 2009 – Premium announced that the 2008 Drill Program on the Company’s Chrome Mountain property in Montana, USA confirmed PGM mineralization intersected at Chrome Mountain was formed by the same type of processes that form Platreef deposits in South Africa. This confirms that there are two distinct styles of mineralization present at the project.
- March 2, 2009 – Premium announced that it has entered into two Letters of Intent with SNS Silver Corp. to jointly develop and explore two of Premium’s central Idaho Gold Projects, Buffalo Gulch and Friday/Petsite.
- March 25, 2009 (amended April 15th)– The Company announced plans to raise up to Cdn\$500,000 through a private placement of 5,000,000 Units at Cdn\$0.10 per Unit. Each Unit will consist of one Common Share and one non-transferable Warrant. Each whole Warrant will be exercisable for a period of two years at an exercise price of Cdn\$0.120 in the first year and Cdn\$0.50 in the second year.
- April 8, 2009 – Premium announced Wilf Struck, P.Eng., as the Company’s Chief Executive Officer. Mr. Struck is a geological engineer with 25 years experience in mining operations with expertise in gold and platinum group metal exploration in Canada and the USA. Mr. Struck has in-depth knowledge of the Company’s Chrome Mountain project in Montana and the Buffalo Gulch and Friday-Petsite properties in Idaho. The Board of Directors approved an issuance of 600,000 stock options to Mr. Struck under the Company’s Stock Option Plan. The options are exercisable for a period of 5 years at \$0.15 and the recognized a fair market value of \$29,000.
- May 13, 2009 - Premium announced that it had signed a contract for road development to access the drill sites for the Phase I High-Grade Gold Drill Program at the Company’s Friday-Petsite property in Idaho, USA. Premium also announced the addition of Mike Ostenson, an experienced gold, platinum and palladium exploration geologist to Premium’s geologic team.
- On 27 May 2009, the Company announced that it had closed a non-brokered private placement of \$673,900 through the offering of 6,739,000 units (the “Units”) at a price of \$0.10 per Unit. Each Unit consists of one common share and one warrant with a two-year term with an exercise price of \$0.20 in the first year, and \$0.50 in the second year. Each warrant entitles the holder to purchase one common share of the Company at the specified exercise price. All of the securities issued pursuant to this private placement have a hold period expiring four months and one day after the closing date. The Company paid finders fees of \$25,475 in respect to the placement, for total net proceeds of \$648,425.

## **MINERAL EXPLORATION**

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

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

The Pine Claim fault is a conduit for gold mineralization which has deposited gold into rocks which form the Stillwater Complex. The fault has also remobilized PGM's associated with the "A" and "B" chromitite horizons. Premium will conduct surface mapping and sampling to further define the limits of the gold bearing system of the Pine Claim Shear Zone.

The 2008 Drill Program was completed toward the end of September tested 5 km of the district scale 15 km PGM soil anomaly that hosts grades up to 1.2 g/t at surface. The Program was a follow up to the 2007 Drill Program and was designed to delineate the mineralization encountered in 2007, described as analogous to a combination of Platreef and UG2 styles of mineralization. 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, and consequently the mining methods benefit from economics of scale. Platreef-style mineralization was encountered in hole CM2007-04 of the 2007 drill program which returned 1.2 g/t Pt+Pd+Au over 116.7 meters.

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

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

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

The Buffalo Gulch Property is comprised of 107 unpatented quartz lode mining claims and is under a Letter of Intent to Joint Venture with the Clearwater Mining Corporation to explore and develop the property which 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 in process. A preliminary drill program is being developed for Buffalo Gulch which will include 17 holes totalling 3,700 meters. Drilling is designed to test mineralization below the currently defined Buffalo Gulch deposit as well as along strike.

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

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 the two past-producing mines locally known as the Orogrande Mine and the Frisco Pit.

The property is NI 43-101 compliant with an 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 cutoff of 0.514 gram per metric tonne (0.017 oz/ton). The property is open to the north and south along strike and at depth. Premium's review of the historical exploration data of this disseminated gold deposit has identified three additional targets. Some of the targets are associated with geochemical / geophysical gold anomalies in the vicinity of this deposit have not been drill tested. Results from the 150 sample soil campaign and results are being evaluated. The northern end of the property is being mapped and will extend the anomaly to the north.

Premium intends to drill a six hole, 800 metre (2,624 ft) program to expand the strike length and further delineate the down dip extension of the high-grade zone.. Drilling is designed to intersect the Orogrande Shear Zone and delineate mineralization down dip and along strike from gold mineralization encountered in past drill programs.

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

The San Pedro Analco property consists of 1,136 hectares. 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. The Company commenced the Phase II Exploration Program designed to follow up on historic reported drilling of 86 holes at the San Pedro Analco silver mine.

The Phase II Exploration Program involves the review and compilation of an independent engineering report, historical data, and previous drill and sample data. The information will be compiled and 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.

## **Results of Operations**

The loss for the period ended 31 March 2008 was \$338,984, which compares to a loss of \$963,719 in same quarter of 2008. The change in results is due to a number of factors key among them being:

- Stock-based compensation expense of \$116,000 (2008 – 136,000) 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.
- Shareholders relations expense of \$21,000 (2008 – 152,000). The decrease relates to the strategic decision, by management, to restrict the level of activity given the market conditions,
- Travel expense of 19,664 (2008 – 58,000) resulting from the specific cost controls put in place by management to adapt to the challenging market conditions in the sector.
- Management Fees of \$39,000 (2008 – 63,000) decreased from the reduced staffing in the first quarter, this is expected to return to more normal levels in the remainder of the year.
- Professional fees of \$25,000(2008 – 60,000) due to reduced activity.
- Office and general expense of \$6,500 (2008 – \$28,000) have been aggressively controlled to conserve resources.
- Resource property expenditures of \$51,000 (2008 – \$421,000), These costs have been curtailed sharply to conserve cash while the Company seeks refinancing. The reader should take care to note that the Company is now expensing exploration costs (full details are available in the financial statements).
- Office rent expense \$15,000 (2008 – 20,000) has decreased due to a change of office space in Vancouver; the move further reflects the active controlling of expenses by management.

## **SUMMARY OF QUARTERLY RESULTS**

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

Three Months Ended	Mar-09	Dec-08	Sept-08	June-08	Mar-08	Dec-07	Sep-07	Jun-07
Total Revenues	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Loss from continuing operations	338,984	\$844,588	\$569,655	\$1,364,742	963,719	1,040,253	\$866,045	\$904,535
Loss for the period	338,984	\$844,588	\$569,655	\$915,463	1,412,998	1,040,253	\$866,045	\$904,535
Loss per share	\$(0.01)	\$(0.03)	\$(0.02)	\$(0.03)	\$(0.4)	(0.05)	(0.03)	(0.04)

## **OUTSTANDING SHARES**

As at March 31, 2009, the Company had 39,442,219 common shares issued and outstanding versus 24,114,303 common shares issued and outstanding at March 31, 2008. The fully diluted amount of 49,697,385 represents options of 6,855,000 and warrants of 3,400,166.

## **FINANCIAL POSITION AND LIQUIDITY**

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

Currency & credit risk – All of the Company's Canadian cash is held in an interest bearing account at a major bank and such balances earn interest at market rates. The Company also maintains cash in the US\$ and the Mexican Peso. The cash balances and payables that are denominated in foreign currencies are subject to currency risk due to fluctuations in the exchange rate between the currencies. To manage this risk the Company maintains only the minimum amount of foreign cash required to fund its ongoing exploration expenditures. At 31 March 09, the Company held currency totalling CDN \$260,500 US \$84,000 and Pesos \$50,000. Accounts payable are settled in a timely manner.

Fair Value – As at 31 March 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.

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

## **CAPITAL RESOURCES AND COMMITMENTS**

The Company has an agreement, with Delbert W. Steiner, President and Director, which calls for monthly payments of \$7,000 and a term of five years to 1 March 2011. This contract may be cancelled upon the Company providing six months advance notice.

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

Management believes it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. Although the Company successfully completed multiple financings, 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 March 2009 and as at the date hereof.

## **International Financial Reporting Standards**

On 13 February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit oriented enterprises effective 1 January 2011. The Company is presently considering the effect these standards will have on its accounting statements.

## **RELATED PARTY TRANSACTIONS**

Transactions and balances with related parties not disclosed elsewhere are as follows:

- a) The Company paid or accrued management fees of \$21,000 (2008 - \$21,000) to a director in his capacity of chief executive officer.
- b) The Company paid or accrued consulting fees of \$15,000 (2008 - \$Nil) to an officer of the Company in the capacity of chief financial officer.
- c) The Company paid management fees of \$24,000 (2008 - \$Nil) to a director of the Company in the capacity of Vice President of mining development.
- d) Included in accounts payable is \$94,000 (2008 - \$3,700) owing to directors or officers.
- e) The Company incurred \$4,300 (2007 - \$3,400) of interest on existing notes payable to directors (*Note 7*).

The above transactions, occurring in the normal course of operations are measured at the exchange amount, the amount of consideration established and agreed to by the parties.

## **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, due to related parties and notes payable. The Company maintains most of its cash in Canadian dollars. However, amounts are converted into U.S. dollars and Mexican pesos and are therefore subject to changes in fair value due to fluctuations in exchange rates. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

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

Consistent with other companies in the mineral exploration industry, Premium has no source of operating revenue. The Company's 31 March 2008 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.

## **MANAGEMENT**

Premium is very dependent upon the personal efforts and commitments of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of Premium could result, and other persons would be required to manage and operate the Company.

## **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.

## **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