



PREMIUM EXPLORATION INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**30 September 2010
(Unaudited)**

MANAGEMENT COMMENT

These interim consolidated financial statements for the nine months ended 30 September 2010 of Premium Exploration Inc. have been prepared by management and have not been subject to review by the Company's auditors.

Interim Consolidated Balance Sheet

(Unaudited)

ASSETS	As at 30 September 2010	As at 31 December 2009
Current		
Cash	\$ 7,276,206	\$ 1,123,951
Receivables	91,160	28,222
Prepays	41,795	59,023
Due from related party (Note 7)	231,000	-
	7,640,161	1,211,196
Resource Properties (Note 4)	3,243,729	249,889
Equipment (Note 5)	65,155	101,186
	\$ 10,949,045	\$ 1,562,271
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 591,536	\$ 230,718
	519,536	230,718
Future Income Tax Liability	429,000	-
	1,020,536	230,718
SHAREHOLDERS' EQUITY		
Share Capital (Note 6)	19,346,657	10,468,438
Share Purchase Warrants (Note 6)	5,225,480	1,406,637
Contributed Surplus (Note 6)	1,673,167	1,734,782
Deficit (Statement 2)	(16,316,795)	(12,278,304)
	9,928,509	1,331,553
	\$ 10,949,045	\$ 1,562,271

Nature of business (Note 1)

ON BEHALF OF THE BOARD:

"Delbert Steiner", Director

"Robert Komarechka", Director

**Interim Consolidated Statement of Loss and Deficit, Comprehensive Loss, and Accumulated Other Comprehensive Income (Loss)
(Unaudited)**

	Three Months Ended 30 September		Nine Months Ended 30 September	
	2010	2009	2010	2009
Expenses				
Resource property expense	\$ 1,927,976	\$ 198,215	\$ 2,801,771	\$ 565,576
Stock-based compensation	97,226	44,237	322,081	231,612
Shareholder relations	104,496	56,297	296,493	174,288
Management fees	86,652	55,386	235,898	159,961
Travel	49,819	11,882	178,390	68,355
Professional fees	56,855	39,102	170,166	89,934
Office rent	48,556	12,057	97,481	52,528
Office and general	53,035	12,645	96,364	35,959
Foreign exchange loss (gain)	68,764	(42,599)	91,018	(320,816)
Transfer agent and filing fees	18,639	7,735	47,435	33,577
Amortization	12,248	21,875	36,031	63,628
Insurance	3,781	22,200	10,837	34,065
Bank charges and interest	2,028	238	4,778	11,771
Loss for the Period Before the Under-noted	(2,530,075)	(439,270)	(4,388,743)	(1,200,438)
Gain on settlement of debt	350,252	-	350,252	-
Loss for the Period	(2,179,823)	(439,270)	(4,038,491)	(1,200,438)
Deficit - beginning of period	(14,136,972)	(10,535,947)	(12,278,304)	(9,774,779)
Deficit, End of Period	\$ (16,316,795)	\$ (10,975,217)	\$ (16,316,795)	\$ (10,975,217)
Loss per Share - Basic and Diluted	\$ (0.02)	\$ (0.01)	\$ (0.05)	\$ (0.03)
Weighted Average Shares Outstanding	104,120,219	48,625,035	79,393,450	43,448,696

Interim Consolidated Statement of Cash Flows (Unaudited)

	Three Months Ended 30 September		Nine Months Ended 30 September	
	2010	2009	2010	2009
Operating Activities				
Loss for the period	\$ (2,179,823)	\$ (439,270)	\$ (4,038,491)	\$ (1,200,438)
Items not affecting cash				
Amortization	12,248	21,875	36,031	63,628
Stock-based compensation	97,226	44,237	322,081	231,612
Gain on settlement of debt	(350,252)	-	(350,252)	-
	(2,420,601)	(373,158)	(4,030,631)	(905,198)
Net Change in non-cash working capital	197,874	(43,405)	84,108	122,915
	(2,222,727)	(416,563)	(3,946,523)	(782,283)
Investing Activities				
Resource properties	(972,992)	-	(972,992)	-
Property, plant and equipment	-	-	-	(7,028)
	(972,992)	-	(972,992)	(7,028)
Financing Activities				
Shares issued for cash	228,405	41,500	8,822,999	466,071
Share purchase warrants issued for cash	-	-	3,632,601	211,854
Non-cash issuance costs	(91,167)	-	(1,137,277)	-
Share issuance costs	-	-	(596,805)	-
Share subscriptions receivable	9,152,000	-	-	-
Gain on settlement of notes payable	350,252	-	350,252	-
Long term debt	-	17,786	-	32,844
	9,639,490	59,286	11,071,770	710,769
Net Increase (Decrease) in Cash	6,443,771	(357,277)	6,152,255	(78,542)
Cash position – beginning of period	832,435	424,231	1,123,951	145,496
Cash Position – End of Period	\$ 7,276,206	\$ 66,954	\$ 7,276,206	\$ 66,954
Supplemental Disclosure of Non-Cash Investing and Financing				
Fair value transfers on exercise of options	\$ 86,739	\$ -	\$ 157,397	\$ -
Fair value transfers on exercise of warrants	\$ 18,000	\$ -	\$ 242,368	\$ -
Issuance of brokers warrants recorded as share capital	\$ -	\$ -	\$ 799,000	\$ -
Gain on settlement of Notes payable	\$ 350,252	\$ -	\$ 350,252	\$ -
FIT liability pickup	\$ 429,000	\$ -	\$ 429,000	\$ -
Fair value of shares issued for property	\$ 1,591,848	\$ -	\$ 1,591,848	\$ -

- See Accompanying Notes -

Notes to Interim Consolidated Financial Statements

Canadian Funds

Unaudited

FOR THE NINE MONTHS ENDED 30 September 2010

1. Nature of Business

The Company was incorporated in the Province of British Columbia, Canada on 27 February 2004. The Company is in the exploration stage and in the process of exploring several mineral properties in the United States and Mexico. The Company has not yet determined whether these properties contain economic reserves. The Company is listed on the TSX Venture Exchange ("TSX-V").

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.

The Company has an accumulated deficit of \$16,317,000 (31 December 2009 - \$12,278,000). 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.

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 Interim Consolidated Financial Statements

Canadian Funds
Unaudited

FOR THE NINE MONTHS ENDED 30 September 2010

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 is the same.

d) 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.

e) 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

f) 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.

g) Change in Reporting Currency to the Canadian dollar

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

Notes to Interim Consolidated Financial Statements

Canadian Funds

Unaudited

FOR THE NINE MONTHS ENDED 30 September 2010

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 30 September 2010 the Company held currency totalling Cdn\$7,212,000 and US\$58,000. 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 30 September 2010 and 31 December 2009 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.

Notes to Interim Consolidated Financial Statements

Canadian Funds

Unaudited

FOR THE NINE MONTHS ENDED 30 September 2010

4. Resource Properties

a) Aquisition

On 02 July 2010 the Company acquired all of the issued and outstanding shares of Clearwater Mining Corporation ("Clearwater") and its subsidiary Elk City Mining LLC for 3,000,000 common shares of the Company valued at \$1,080,000.

Under the terms of the merger, the shareholders of Clearwater received an aggregate total of 3,000,000 common shares (issued 02 July 2010) of Premium, along with a 1% Net Smelter Returns royalty ("NSR") on the Friday-Petsite Project, and 60 ounces of gold from initial production. The NSR is payable quarterly upon the commencement of commercial production of gold from the Friday-Petsite Project up to a total of US\$3,000,000 in royalty payments.

The acquisition was accounted for as follows:

Fair value of net assets acquired	\$
Resource properties	2,993,840
Liabilities	(1,484,840)
Future income tax liability	(429,000)
	<u>\$ 1,080,000</u>
 Consideration	
Shares issued for resource property	<u>\$ 1,080,000</u>

The acquisition involved granting of 1,750,000 shares to E. Steiner, an insider of the Company.

Premium also entered into the revised royalty agreement (the "Royalty Agreement") with Kria Resources Ltd ("Kria") and Valencia Ventures Inc. ("Valencia"). The Royalty Agreement replaced the 2007 agreement between Clearwater, Kria (then Beartooth Platinum Corp.), and Valencia, governing the acquisition of the Buffalo Gulch Project.

Under the Revised Royalty Agreement Premium paid Kria USD\$550,000 (in a combination of cash and shares) and paid Valencia USD\$550,000 (in a combination of cash and shares). The Royalty Agreement also includes a 0.75% NSR on the Buffalo Gulch Project each to Kria and Valencia upon commercial production. The closing of the Royalty Agreement results in a settling of all liabilities on the historic books of Clearwater and results in a gain on settlement. The transaction was accounted for as follows:

Consideration	\$
Cash and shares	1,134,588
Liabilities extinguished	(1,484,840)
Gain on settlement of debt	352,252
	<u>\$ -</u>

Total acquisition costs on the balance sheet are now \$3,243,729 from the increase of mineral properties (\$2,993,840) combined with the opening balance of \$249,889.

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

Canadian Funds
Unaudited

FOR THE NINE MONTHS ENDED 30 September 2010

b) Summary of exploration expenditures for the nine month period ended 30 September 2010 and the year-end 31 Dec 2009:

	United States		Mexico	Total
2010				
Administration	\$ 78,843	\$ -	\$ -	\$ 78,843
Assaying	297,803	-	-	297,803
Claim fees	60,381	-	-	60,381
Drilling	1,644,171	-	-	1,644,171
General	37,110	24,461	-	61,571
Geophysical	441,323	-	-	441,323
Geological	144,292	-	-	144,292
Reports	73,386	-	-	73,386
	<u>\$ 2,77,310</u>	<u>\$ 24,461</u>	<u>\$ -</u>	<u>\$ 2,801,771</u>
2009				
Administration	\$ 148,345	\$ 148,345	\$ -	\$ 148,345
Assaying	126,434	126,434	-	126,434
Claim fees	102,493	102,493	-	102,493
Drilling	515,616	515,616	-	515,616
Field transport	7,145	7,145	-	7,145
General	196,331	196,331	-	196,331
Geological	113,327	113,327	-	113,327
Surface access	8,427	8,427	-	8,427
	<u>\$ 1,218,118</u>	<u>\$ 1,218,118</u>	<u>\$ -</u>	<u>\$ 1,218,118</u>

c) Details of exploration expenditures for the 9 month period ended 30 September 2010 and the year-end 31 Dec 2009:

	United States			Total
	Buffalo Gulch	Petsite Friday	Chrome Mountain	
30 September 2010				
Administration	\$ 33,790	45,053	-	\$ 78,843
Assaying	3,656	294,147	-	297,803
Drilling	-	1,644,171	-	1,644,171
General	2,159	34,951	-	37,110
Geophysical	66,026	375,297	-	441,323
Geological	20,698	76,404	47,190	144,292
Claim fees	79,782	(19,401)	-	60,381
Reports	43,321	30,065	-	73,386
	<u>\$ 249,432</u>	<u>2,480,688</u>	<u>47,190</u>	<u>\$ 2,777,310</u>

Year ended				Total
31 December 2009	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>\$ 1,218,118</u>

	Mexico		Total
	San Pedro	Other	
30 September 2010			
General	\$ 24,461	\$ -	\$ 24,461

Year ended	San Pedro		Total
31 December 2009	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>\$ 50,888</u>

Notes to Interim Consolidated Financial Statements

Canadian Funds

Unaudited

FOR THE NINE MONTHS ENDED 30 September 2010

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) Idaho Properties, 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"). Subsequent to the period end a final agreement was ratified (*Note 11*).

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 2008.
- Assumption of the yearly Business of Land Management claim maintenance fees on the South Orogrande shear zone.

Notes to Interim Consolidated Financial Statements

Canadian Funds
Unaudited

FOR THE NINE MONTHS ENDED 30 September 2010

4. Resource Properties - *continued*

- In the event that the Company should vend or transfer all or part of the South Orogrande shear zone to a third party within one year, the Company shall pay Clearwater 50% of all cash and stock-based consideration that it receives in turn for making the transfer to the third party.

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.

5. Equipment

Details are as follows:

	Cost	Accumulated Amortization	Net Book Value
30 September 2010			
Computer equipment	\$ 28,864	\$ 16,755	\$ 12,109
Furniture and equipment	10,364	7,524	2,840
Field equipment	179,421	134,418	45,003
Website software	20,829	15,626	5,203
	<u>\$ 239,478</u>	<u>\$ 174,323</u>	<u>\$ 65,155</u>
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>

Premium Exploration Inc.

Notes to Interim Consolidated Financial Statements

Canadian Funds
Unaudited

FOR THE NINE MONTHS ENDED 30 September 2010

6. 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 2008	39,442,219	\$ 8,095,867	3,400,166	\$ 402,685
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	\$ 1,632,936
Issuance of shares for property	-	-	-	-
Issuance of escrow shares on private placements	40,000,000	6,367,399	20,000,000	3,632,601
Issuance of shares on exercise of options	1,323,750	262,113	-	-
Issuance of shares on warrant exercise	6,572,750	1,394,488	-	-
Non-cash issuance of shares	4,421,800	1,591,848		
Issuance of escrow brokers shares	-	-	2,800,000	799,000
Fair value transfer on exercise of options	-	157,397	-	-
Fair value transfer on exercise of warrants	-	242,252	(6,572,750)	(242,252)
Share issuance costs on escrow shares	-	(1,046,110)	-	(596,805)
Balance – 30 September 2010	114,068,519	\$ 19,346,657	39,636,416	\$ 5,225,480

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

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, allowing 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, 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, allowing 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

Notes to Interim Consolidated Financial Statements

Canadian Funds

Unaudited

FOR THE NINE MONTHS ENDED 30 September 2010

6. Share Capital – *continued*

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

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 17 June 2010 the Company issued 40,000,000 units in escrow on a brokered private placement at \$0.25 per unit for gross proceeds of \$10,000,000. Each unit consisted of one common share and one half of a common share purchase warrant, with each whole warrant entitling the holder to acquire an additional common share at a price of \$0.35 per share for an eighteen month period following closing.

The funds raised include a 7% cash commission payable upon closing and 7% broker's warrants issuable upon closing. Each broker's warrant allows the holder thereof to purchase a unit at an exercise price of \$0.25 per unit, exercisable for a period of eighteen months after the closing date. Each unit has the same terms and conditions as those offered under the private placement. The placement closed subsequent to the year-end on 05 July 2010 and the shares were released from escrow.

On 02 July 2010 the TSX Venture Exchange ("The Exchange") accepted for filing the plan of merger dated 17 June 2010, between The Company, its wholly owned subsidiary, Premium Exploration USA Inc., and Clearwater Mining Corp., and Rod Nichols and Ellen Steiner (related party), whereby the Company, through its subsidiary, acquired 100 percent of the shares of Clearwater Mining Corp, from the shareholders. In consideration of this transaction, the Company issued 1.25 million common shares to Mr. Nichols and 1.5 million common shares to Ms. Steiner.

In addition, the Exchange accepted for filing the revised royalty agreement dated 17 June 2010 between the Company, its subsidiary Premium Exploration USA Inc., and Kria Resources Ltd and Valencia Ventures Inc., with respect to the Buffalo Gulch mineral property in Idaho. In consideration of this transaction, the Company paid \$585,000 in cash or shares to Kria Resources Ltd., and 500,000 cash or shares to Valencia Venture, and a 0.75 percent net smelter royalty on the Buffalo Gulch project to each Kria and Valencia.

On 05 July 2010 the Company closed the pending private placement received the subscriptions receivable and released the shares from escrow.

Notes to Interim Consolidated Financial Statements

Canadian Funds

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FOR THE NINE MONTHS ENDED 30 September 2010

6. 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 period is summarized as follows:

	2010	Weighted Average Exercise Price	2009	Weighted Average Exercise Price
Balance - beginning of year	6,905,000	\$0.25	4,205,000	\$0.44
Granted	2,460,000	0.36	3,350,000	0.18
Exercised	(1,323,750)	0.19	(250,000)	0.15
Expired / Cancelled	(150,000)	0.25	(400,000)	0.33
Balance – end of Year	7,891,250	\$0.29	6,905,000	\$0.25

Details of stock options outstanding as at 30 September 2010 are as follows:

Expiry Date	Exercise Price	2010	2009
1 March 2011	\$0.30	450,000	450,000
15 November 2011	0.20	175,000	300,000
5 March 2012	0.23	1,050,000	1,050,000
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	875,000
15 February 2013	0.66	150,000	150,000
7 April 2013	0.33	18,750	150,000
2 May 2013	0.30	400,000	500,000
19 Jan 2014	0.15	800,000	1,600,000
5 April 2014	0.15	600,000	600,000
20 Oct 2014	0.25	-	300,000
4 Nov 2014	0.25	600,000	600,000
30 Jun 2015	0.36	2,442,500	-
		7,891,250	6,905,000

The outstanding options have a weighted-average exercise price of \$0.28 (2009-\$0.25) and the weighted-average remaining life of the options is 3.10 (2009-\$3.27) years. As at 30 September 2010, a total of 4,755,475 (2009 – 5,655,000) of these outstanding options had vested.

d) Warrants

	2010	Weighted Average Exercise Price	2009	Weighted Average Exercise Price
Balance - beginning of Year	23,409,166	\$0.30	3,400,166	\$0.50
Issued	20,000,000	0.35	20,259,000	0.27
Issued agents warrants	2,800,000	0.25	-	-
Exercised	(6,572,750)	0.20	(250,000)	0.20
Balance – end of Period	39,636,416	0.34	23,409,166	0.30

Notes to Interim Consolidated Financial Statements

Canadian Funds

Unaudited

FOR THE NINE MONTHS ENDED 30 September 2010

6. Share Capital - *continued*

d) Warrants - *continued*

A summary of outstanding is as follows:

	Price	Expiry	Number of Warrants
Issued 20 August 2008	0.75	26 August 2010	3,400,166
Issued 29 May 2009	0.20	29 May 2011	166,250 i
Issued 23 Oct 2009	0.30	23 April 2011	6,895,000 ii
Issued 12 Nov 2009	0.30	12 May 2011	6,375,000 ii
Issued 2 Jul 2010	0.35	2 Jan 2012	20,000,000
Issued 2 Jul 2010	0.25	2 Jan 2012	2,800,000 iii
Balance - 30 September 2010			39,636,416

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

e) Stock-based compensation

For the period ended 30 September 2010, the Company issued stock options to its directors, officers, employees, and consultants and recognized stock-based compensation as follows:

	2010	2009
Total options granted	2,460,000	3,350,000
Average exercise price (in Cdn\$)	\$ 0.36	\$ 0.18
Estimated fair value of compensation	\$ 547,000	\$ 352,983
Estimated fair value per option	\$ 0.22	\$ 0.10

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:

	2010	2009
Risk-free interest rate	2.20%	1.84%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	106.00%	91.52%
Expected option life in years	5.00	5.00

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

	2010	2009
Number of options vested	612,500	2,131,250
Total compensation recognized	\$ 97,266	\$ 302,077

The Black-Scholes Option Pricing Model was created for use in estimating the fair value of freely tradable, fully transferable options. The Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the highly subjective input assumptions can materially affect the calculated values, management believes that the accepted Black-Scholes model does not necessarily provide a reliable measure of the fair value of the Company's stock option awards.

f) Contributed Surplus

Details are as follows:

	2010	2009
Balance - Beginning of Year	\$ 1,508,483	\$ 1,227,247
Stock-based compensation	322,081	302,077
Fair value of stock options exercised	(157,397)	(20,841)
Balance - End of Year	\$ 1,673,167	\$ 1,508,483

Notes to Interim Consolidated Financial Statements

Canadian Funds
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FOR THE NINE MONTHS ENDED 30 September 2010

7. 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 US\$60,000 (2009 - US\$45,000) to a director in his capacity of chief executive officer.
- b) The Company paid management fees of US\$76,500 (2009 - US\$81,000) to a director in his capacity of president and/or director.
- c) The Company paid consulting fees of \$45,000 (2009 - \$45,000) to a company controlled by an officer of the Company in the capacity of chief financial officer.
- d) The Company loan \$231,000 to an officer and director of the Company. The loan has a 5% interest rate per annum and is payable on or before 31 December 2010.
- e) See description of events in Note 6(b)

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.

8. Segmented Disclosure

	Canada	United States	Total
30 September 2010			
Resource properties	\$ -	3,243,729	3,243,729
Equipment	20,152	45,003	65,155
Total	<u>\$ 20,152</u>	<u>303,931</u>	<u>3,308,884</u>
31 December 2009			
Resource properties	\$ -	249,889	249,889
Equipment	<u>\$ 29,359</u>	<u>71,827</u>	<u>101,186</u>
Total	<u>29,359</u>	<u>321,716</u>	<u>351,075</u>

9. 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 Interim Consolidated Financial Statements

Canadian Funds

Unaudited

FOR THE NINE MONTHS ENDED 30 September 2010

10. 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 US\$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 US\$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 commitments under the lease are as follows:

2010	\$	15,500
2011		41,000
2012		7,000
Total	\$	<u>63,500</u>