
PREMIUM EXPLORATION INC.

Consolidated Financial Statements

For the Year Ended 31 December 2011

Stated in Canadian Funds

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Management's Responsibility

To the Shareholders of Premium Exploration Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of the Premium's external auditors.

We draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board Audit Committee and management to discuss their audit findings.

09 April 2012

"Delbert Steiner"

Del Steiner, President & Chief Executive Officer

"Grant T. Smith"

Grant T. Smith, Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Premium Exploration Inc.:**

We have audited the accompanying consolidated financial statements of Premium Exploration Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years ended December 31, 2011 and 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Premium Exploration Inc. and its subsidiaries as at December 31, 2011, December 31, 2010, and January 1, 2010, and the results of their operations and their cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of these financial statements, which states that Premium Exploration Inc. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast doubt about the ability of Premium Exploration Inc. to continue as a going concern.



April 9, 2012

Vancouver, British Columbia

Chartered Accountants

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Consolidated Statement of Financial Position

	Note	As at		
		31 December 2011	31 December 2010 Restated IFRS	01 January 2010 Restated IFRS
ASSETS				
Current Assets				
Cash and cash equivalents		\$ 1,431,073	\$ 5,329,182	\$ 1,123,951
Amounts receivable		189,975	141,392	28,222
Prepaid amounts and deposits		255,886	67,451	59,023
		1,876,934	5,538,025	1,211,196
Non-current Assets				
Intangible assets	(7)	-	3,687	9,207
Property and equipment	(8)	1,032,237	553,821	91,979
Resource property	(9)	2,367,646	2,367,646	249,889
		3,399,883	2,925,154	351,075
		\$ 5,276,817	\$ 8,463,179	\$ 1,562,271
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	(12)	\$ 548,480	\$ 495,092	\$ 230,718
Current portion of long-term debt	(10)	323,981	174,150	-
		872,461	669,242	230,718
Non-current Liabilities				
Long-term debt	(10)	119,244	171,231	-
		119,244	171,231	-
EQUITY				
Share capital	(11)	26,073,827	19,826,801	10,468,438
Share purchase warrants	(11)	3,728,657	4,959,744	1,632,936
Contributed surplus	(11)	1,893,998	1,886,241	1,546,231
Deficit		(27,411,370)	(19,050,080)	(12,316,052)
		4,285,112	7,622,706	1,331,553
		\$ 5,276,817	\$ 8,463,179	\$ 1,562,271
Nature of Operations and Going Concern	(1)	Commitments		(15)
Statement of Compliance	(2)	Contingent Liability		(17)
Segmented Disclosure	(13)	IFRS Adjustments		(19)
Capital Disclosure	(14)			

The consolidated financial statements were approved by the Board on 09 April 2012 and were signed on its behalf by:

"Delbert W. Steiner"
Delbert W. Steiner, Director

"Robert Komarechka"
Robert Komarechka, Director

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2011	Year ended 31 December 2010 <i>Restated IFRS</i>
Continuing Operations			
Expenses			
Exploration and evaluation			
Resource property expense		\$ 6,049,959	\$ 4,346,503
Stock-based compensation	(9)	62,400	71,600
General and administrative			
Shareholder relations		555,916	408,507
Travel		441,021	286,787
Management fees	(12)	417,570	544,277
Office and general		263,828	147,072
Professional fees	(12)	218,892	220,685
Stock-based compensation	(9)	174,072	438,378
Office rent		122,148	105,731
Transfer agent and filing fees		50,162	34,058
Bank charges and interest		38,656	8,155
Amortization		17,680	46,935
Insurance		16,263	14,913
Foreign exchange (gain) loss		(78,431)	32,235
Interest income		-	(19,880)
Other Items			
Write off of equipment		-	48,072
Gain on sale of assets		(10,240)	-
Loss from Operating Activities being Comprehensive Loss		\$ (8,339,896)	\$ (6,734,028)
Basic and Diluted Loss per Common Share		\$ (0.07)	\$ (0.06)
Weighted Average Number of Shares Outstanding		126,200,017	114,282,730

Statement of Changes in Equity for the Year Ended 31 December 2010

<i>Restated IFRS</i>	Note	Shares	Amount	Warrants	Amount	Options	Amount	Deficit	Shareholders' Equity
Balance 01 January 2010		61,750,219	\$ 10,468,438	23,409,166	\$ 1,632,936	6,905,000	\$ 1,546,231	\$(12,316,052)	\$ 1,331,553
Stock option exercises		406,250	71,187	-	-	-	-	-	71,187
Warrant exercises		1,963,750	397,750	-	-	-	-	-	397,750
Fair value of options exercised		-	46,658	-	-	(381,250)	(46,658)	-	-
Fair value of warrants exercised		-	70,572	(1,963,750)	(70,572)	-	-	-	-
Share-based payments		-	-	-	-	-	50,958	-	50,958
Net loss for the period		-	-	-	-	-	-	(491,917)	(491,917)
Balance 31 March 2010		64,120,219	\$ 11,054,605	21,445,416	\$ 1,562,364	6,523,750	\$ 1,550,531	\$(12,807,969)	\$ 1,359,531
Private placements		40,000,000	6,367,399	20,000,000	3,632,601	-	-	-	10,000,000
Stock option exercises		125,000	37,500	-	-	-	-	-	37,500
Warrant exercises		4,359,000	921,738	-	-	-	-	-	921,738
Issuance of agents warrants		-	-	2,800,000	799,000	-	-	-	799,000
Fair value of options exercised		-	24,000	-	-	(150,000)	(24,000)	-	-
Fair value of warrants exercised		-	153,796	(4,359,000)	(153,796)	-	-	-	-
Options expired		-	-	-	-	(150,000)	-	-	-
Share issuance costs		-	(1,046,110)	-	-	-	-	-	(1,046,110)
Share-based payments		-	-	-	(596,805)	2,460,000	172,344	-	(424,461)
Net loss for the period		-	-	-	-	-	-	(1,365,198)	(1,365,198)
Balance 30 June 2010		108,604,219	\$ 17,512,928	39,886,416	\$ 5,243,364	8,683,750	\$ 1,698,875	\$(14,173,167)	\$ 10,828,000

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Balance 30 June 2010	108,604,219	\$ 17,512,928	39,886,416	\$ 5,243,364	8,683,750	\$ 1,698,875	\$(14,173,167)	\$ 10,828,000
Subscription receivable	-	9,151,980	-	-	-	-	-	9,151,980
Property acquisitions	4,421,800	1,500,680	-	-	-	-	-	1,500,680
Stock option exercises	792,500	153,426	-	-	-	-	-	153,426
Warrant exercises	250,000	75,000	-	-	-	-	-	75,000
Fair value of options exercised	-	86,739	-	-	(792,500)	(86,739)	-	-
Fair value of warrants exercised	-	17,884	(250,000)	(17,884)	-	-	-	-
Share-based payments	-	-	-	-	-	128,363	-	128,363
Net loss for the period	-	-	-	-	-	-	(2,210,960)	(2,210,960)
Balance 30 September 2010	114,068,519	\$ 28,498,637	39,636,416	\$ 5,225,480	7,891,250	\$ 1,740,499	\$(16,384,127)	\$ 9,928,509
Private placement issuances	-	648,601	-	(648,601)	-	-	-	-
Subscriptions receivable	-	(9,151,980)	-	-	-	-	-	(9,151,980)
Property acquisitions	-	98,277	-	-	-	-	-	98,277
Stock option exercises	68,750	10,000	-	-	-	-	-	10,000
Warrant exercises	137,250	(6,588)	-	-	-	-	-	(6,588)
Agents primary warrants exercises	280,000	119,000	-	-	-	-	-	119,000
Agents secondary warrants exercises	140,000	-	-	-	-	-	-	-
Issuance of primary agents warrants	-	-	-	(137,080)	-	-	-	(137,080)
Issuance of secondary agents warrants	-	-	140,000	-	-	-	-	-
Fair value of options exercised	-	12,570	-	-	(68,750)	(12,571)	-	-
Fair value of warrants exercised	-	10,667	(137,250)	(10,667)	-	-	-	-
Fair value of primary agents warrants	-	66,193	(280,000)	(66,193)	-	-	-	-
Fair value of secondary agents warrants	-	-	(140,000)	-	-	-	-	-
Warrants expired	-	-	(3,400,166)	-	-	-	-	-
Options expired	-	-	-	-	(600,000)	-	-	-
Share issuance costs	-	(475,575)	-	-	-	-	-	(475,575)
Share-based payments	-	-	-	596,805	-	158,313	-	755,118
Net loss for the period	-	-	-	-	-	-	(2,665,953)	(2,665,953)
Balance 31 December 2010	114,694,519	\$ 19,826,801	35,819,000	\$ 4,959,744	7,222,500	\$ 1,886,241	\$(19,050,080)	\$ 7,622,706

Statement of Changes in Equity for the Year Ended 31 December 2011

Restated IFRS	Note	Shares	Amount	Warrants	Amount	Options	Amount	Deficit	Shareholders' Equity
Balance 01 January 2011		114,694,519	\$ 19,826,801	35,819,000	\$ 4,959,744	7,222,500	\$ 1,886,241	\$(19,050,080)	\$ 7,622,706
Stock option exercises		1,090,000	252,400	-	-	-	-	-	252,400
Warrant exercises		745,000	232,350	-	-	-	-	-	232,350
Agent's warrants exercises		1,000,000	250,000	-	-	-	-	-	250,000
Fair value of options exercised		-	155,177	-	-	(1,090,000)	(155,177)	-	-
Fair value of warrants exercised		-	88,511	(745,000)	(88,511)	-	-	-	-
Fair value of primary agents warrants		-	236,400	(1,000,000)	(236,400)	-	-	-	-
Options expired		-	-	-	-	(150,000)	-	-	-
Share-based payments		-	-	-	-	-	54,862	-	54,862
Net loss for the period		-	-	-	-	-	-	(897,490)	(897,490)
Balance 31 March 2011		117,529,519	\$ 21,041,639	34,074,000	\$ 4,634,833	5,982,500	\$ 1,785,926	\$(19,947,570)	\$ 7,514,828
Stock option exercises		50,000	10,000	-	-	-	-	-	10,000
Warrant exercises		12,710,000	3,835,250	-	-	-	-	-	3,835,250
Fair value of options exercised		-	9,213	-	-	(50,000)	(9,213)	-	-
Fair value of warrants exercised		-	1,455,338	(12,710,000)	(1,455,338)	-	-	-	-
Share-based payments		-	-	-	-	-	66,301	-	66,301
Net loss for the period		-	-	-	-	-	-	(2,510,447)	(2,510,447)
Balance 30 June 2011		130,289,519	\$ 26,351,440	21,364,000	\$ 3,179,495	5,932,500	\$ 1,843,014	\$(22,458,017)	\$ 8,915,932
Stock option exercises		200,000	60,000	-	-	-	-	-	60,000
Agent's warrants exercises		560,000	140,000	-	-	-	-	-	140,000
Fair value of options exercised		-	43,572	-	-	(200,000)	(43,572)	-	-
Fair value of primary agents warrants		-	132,384	(560,000)	(132,384)	-	-	-	-
Share redemption		(94,000)	(19,026)	-	-	-	-	(21,394)	(40,420)
Share based payments		-	-	-	-	-	20,662	-	20,662
Net loss for the period		-	-	-	-	-	-	(3,655,569)	(3,655,569)
Balance 30 September 2011		130,955,519	\$ 26,708,370	20,804,000	\$ 3,047,111	5,732,500	\$ 1,820,104	\$(26,134,980)	\$ 5,440,605

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Balance 30 September 2011	130,955,519	\$ 26,708,370	20,804,000	\$ 3,047,111	5,732,500	\$ 1,820,104	\$(26,134,980)	\$ 5,440,605
Stock options granted	-	-	-	-	250,000	-	-	-
Stock option exercises	150,000	26,250	-	-	(150,000)	-	-	26,250
Fair value of options exercised	-	20,753	-	-	-	(20,753)	-	-
Fair value of warrants exercised	-	(615,546)	-	615,546	-	-	-	-
Fair value of primary agents warrants	-	(66,000)	-	66,000	-	-	-	-
Options expired	-	-	-	-	(25,000)	-	-	-
Warrants expired	-	-	(135,000)	-	-	-	-	-
Share-based payments	-	-	-	-	-	94,647	-	94,647
Net loss for the period	-	-	-	-	-	-	(1,276,390)	(1,276,390)
	(9							
Balance 31 December 2011) 131,105,519	\$ 26,073,827	20,669,000	\$ 3,728,657	5,807,500	\$ 1,893,998	\$(27,411,370)	\$ 4,285,112

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Consolidated Statement of Cash Flows

	Year ended 31 December 2011	Year ended 31 December 2010
Operating Activities		
Loss for the Period	\$ (8,339,896)	\$ (6,734,028)
Items not Affecting Cash		
Amortization	17,690	46,935
Stock-based compensation	236,472	509,978
Imputed interest on acquisition of property	31,444	-
Unrealized foreign exchange gain	18,151	-
Loss on disposition of equipment	-	48,072
	(8,036,139)	(6,129,043)
Net Change in Non-cash Working Capital	(183,630)	142,776
	(8,219,769)	(5,986,267)
Investing Activities		
Purchase of property, plant and equipment	(492,419)	(551,329)
Resource acquisition costs	-	(518,799)
	(492,419)	(1,070,128)
Financing Activities		
Issuance of shares	4,806,250	8,795,013
Issuance of share purchase warrants	-	2,984,000
Unit offering issuance costs	-	(862,768)
Share redemption	(40,420)	-
Payment of notes payable	(199,495)	-
Change in notes payable	247,744	345,381
	4,814,079	11,261,626
Net Increase (Decrease) in Cash	(3,898,109)	4,205,231
Cash position – beginning of period	5,329,182	1,123,951
Cash Position – End of Period	\$ 1,431,073	\$ 5,329,182
Supplemental Disclosure		
Fair value transfer on exercise of options	\$ 228,715	\$ 169,968
Fair value transfer on exercise of warrants	\$ 928,303	\$ 252,919
Fair value transfer on exercise of primary agent warrants	\$ 302,784	\$ 66,191
Share redemption	\$ 40,420	\$ -
Issuance of shares for property	\$ -	\$ 1,591,958
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

Notes to Consolidated Financial Statements

1) Nature of operations and going concern

The Company was incorporated in the Province of British Columbia, Canada on 27 February 2004; its registered office is located at Suite 807 – 475 Howe Street, Vancouver, BC, Canada, V6C 2B3. The Company is in the exploration stage and in the process of exploring several mineral properties in the United States. The Company has not yet determined whether these properties contain economic reserves. The Company is listed on the TSX Venture Exchange (“TSX-V”).

These consolidated financial statements have been prepared on the basis of the accounting principles applicable to a going concern, which assumes the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

There are several adverse conditions that cast significant doubt upon the soundness of this assumption. The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of resource property expenditures is dependent upon several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties.

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

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

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

	31 December 2011	31 December 2010
Working capital	\$ 1,004,473	\$ 4,868,783
Accumulated deficit	\$ 27,411,370	\$ 19,050,080

2) Basis of preparation – Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and related IFRS Interpretations Committee (“IFRICs”) as issued by the International Accounting Standards Board and effective the for the year ending 31 December 2011.

These consolidated financial statements were authorized for issue by the Board of Directors on 09 April 2012.

These first annual consolidated financial statements have been prepared in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards. Subject to certain transition elections disclosed in note 18, the accounting policies disclosed in note 3 have been consistently applied in the opening consolidated statement of financial position at 01 January 2010, and throughout all years presented. The disclosures concerning the transition from Canadian Generally Accepted Accounting Principles (“Previous Canadian GAAP”) to IFRS are included in note 19.

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Notes to Consolidated Financial Statements

These consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments, as set out in the accounting policies in note 3.

3) Summary of significant accounting policies

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments. The Company's principal accounting policies are outlined below:

a) Basis of presentation

These consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Company's equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest's share of changes in equity since the date of acquisition. The Company has no non-controlling interests.

b) Business combinations

Business combinations that occurred prior to 01 January 2010 were not accounted for in accordance with IFRS 3 Business Combinations or IAS 27 Consolidated and Separate Financial Statements in accordance with the IFRS 1 First-time Adoption of International Financial Reporting Standards exemption discussed in Note 19.

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

c) Foreign currency

The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the parent. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The parent and subsidiaries use the Canadian dollar as their functional currency.

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Notes to Consolidated Financial Statements

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the end of reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences and other changes in the carrying amount of the security. Translation differences are recognised in the income statement and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets, such as investments in equity securities, classified as available-for-sale are reported as part of the fair value gain or loss and are included in equity.

In respect of all foreign operations, any exchange differences that have arisen before 01 January 2010, the date of transition to IFRS, as discussed in note 18a, are deemed to be nil and will be excluded from the determination of any subsequent profit or loss on disposal.

d) Measurement uncertainty

The preparation of these consolidated financial statements, in conformity with IFRS, 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 valuation and estimated useful lives of equipment, the measurement of stock-based compensation, the valuation of warrants, the valuation allowance for future income tax assets and liabilities, valuation and recoverability of resource properties, valuation of shares issued on acquisition of subsidiary and for resource property, imputed interest rates on long term debt, and rates used in foreign currency translation. Actual results may differ from these estimates.

Depreciation and depletion of property, plant and equipment assets are dependent upon estimates of useful lives and reserve estimates, both of which are determined with the exercise of judgement. The assessment of any impairment of property, plant and equipment is dependent upon estimates of recoverable amount that take into account factors such as reserves, economic and market conditions and the useful lives of assets. Provisions for environmental rehabilitations are recognised in the period in which they arise and are stated as the fair value of estimated future costs.

The Company bases its estimates and assumptions on current facts, historical experience, and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. These estimates require extensive judgement about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

PREMIUM EXPLORATION INC.

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Notes to Consolidated Financial Statements

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The following specific criteria must be met before revenue is recognised:

Production revenue

Revenue from production is recognised when all of the following conditions are satisfied:

- The specific risks and rewards of ownership have been transferred to the purchaser;
- The Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the product;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the sale can be measured reliably.

Interest income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

f) Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the estimated number of stock options awarded to employees, officers and directors that will eventually vest, is recognized as share-based compensation expense over the vesting period of the stock options with a corresponding increase to equity. The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option-pricing model ("BkS") and is expensed over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in net loss or such that the accumulated expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. The share based payment cost is recognized in net loss.

g) Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange gains and losses on foreign currency borrowings.

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Notes to Consolidated Financial Statements

h) Income taxes

Income tax expense comprises current and deferred income tax. Income tax is recognized in the consolidated statement of comprehensive income (loss) except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current income tax

Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income taxes are the taxes expected to be payable or recoverable between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred income tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of an asset to be recovered.

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Notes to Consolidated Financial Statements

i) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

j) Comprehensive profit (loss)

Comprehensive profit (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit such as unrealized gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive profit (loss), components of other comprehensive income, and cumulative translation adjustments are presented in the Consolidated Statements of Comprehensive Profit (Loss) and the Consolidated Statements of Shareholders' Equity.

k) Property, plant and equipment

Other assets are depreciated using the straight-line method based on estimated useful lives, which generally range from 1 to 5 years. Land is not depreciated.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognised as a provision.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate portion of normal overheads.

The costs of day-to-day servicing are recognised in profit or loss as incurred. These costs are more commonly referred to as "maintenance and repairs."

Financing costs directly associated with the construction or acquisition of qualifying assets are capitalized at interest rates relating to loans specifically raised for that purpose, or at the average borrowing rate where the general pool of group borrowings is utilized. Capitalization of borrowing costs ceases when the asset is substantially complete.

The depreciation method, useful life and residual values are assessed annually.

Leased assets

Leases in which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the lower of the fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses

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Subsequent costs

The cost of replacing part of an item within property, plant and equipment is recognised when the cost is incurred if it is probable that the future economic benefits will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised as an expense as incurred.

Impairment

The Company's tangible and intangible assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognised when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognised in profit and loss for the period.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversal of impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised. An impairment loss with respect to goodwill is never reversed.

I) Exploration and evaluation

The Company is currently in the exploration stage with all of its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, costs incurred to explore and evaluate properties, and the fair value, upon acquisition, of mineral properties acquired in a business combination.

Exploration and evaluation expenditures are expensed in the period they are incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination or an asset acquisition. Significant property acquisition costs are capitalized only to the extent that such costs can be directly attributed to an area of interest where it is considered likely to be recoverable by future exploitation or sale. Development costs relating to specific properties are capitalized once management has made a development decision.

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

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Restoration provisions

The Company recognizes liabilities for legal obligations associated with the reclamation or rehabilitation of mineral property interests that the Company is required to settle. The Company recognizes the fair value of liabilities for such obligations in the year in which they occur or in the year in which a reasonable estimate of such costs can be made. The obligation is recorded as a liability with a corresponding charge to operations. The Company has determined that it has no restoration obligations as at 31 December 2011.

m) Short-term investments

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised. An impairment loss with respect to goodwill is never reversed.

n) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of three months or less.

o) Financial instruments

All financial instruments must be recognised, initially, at fair value on the consolidated balance sheet. The Company has classified each financial instrument into the following categories: "held for trading," "loans and receivables," and "other liabilities." Subsequent measurement of the financial instruments is based on their respective classification. Unrealized gains and losses on held for trading instruments are recognised in earnings. The other categories of financial instruments are recognised at amortized cost using the effective interest method. The Company had made the following classifications:

Financial Asset or Liability	Category
Cash and cash equivalents	Held for trading
Amounts receivables	Loans and receivables
Deposits	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities
Long term debt	Other liabilities

p) Environmental

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates is capitalized along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in estimates.

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Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The costs of rehabilitation projects that were included in the rehabilitation provision are recorded against the provision as incurred. The cost of on-going current programs to prevent and control pollution is charged against profit and loss as incurred.

q) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

r) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period.

The group derecognizes financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

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4) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amount and classification of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments and areas involving estimates, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amount recognized in the consolidated financial statements.

a) Critical judgements in applying accounting policies

Determination of functional currency

In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, management determined that the functional currency of the Company and its wholly owned subsidiaries is the Canadian dollar.

b) Key sources of estimation uncertainty

Useful life of plant and equipment

As discussed in note 3(g), the Company reviews the estimated lives of its plant and equipment at the end of each reporting period. There were no material changes in the lives of plant and equipment for the years ended 31 December 2011 and 2010.

Share based payments

Management assesses the fair value of stock options granted in accordance with the accounting policy stated in note 3. The fair value of stock options granted is measured using the Black-Scholes option valuation model ("BkS"), which was created for use in estimating the fair value of freely tradable, fully transferable options. The Company's stock options have characteristics significantly different from those of traded options, and changes in the highly subjective input assumptions can materially affect the calculated values. The fair value of stock options granted using

Income Taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

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Notes to Consolidated Financial Statements

5) Accounting standards issued but not yet effective

a) IFRS 9, Financial Instruments

The Standard is effective for annual periods beginning on or after 01 January 2015, with earlier adoption permitted. The standard is the first part of a multi-phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The Company has not early-adopted the standard and is currently assessing the impact it will have on the consolidated financial statements.

b) IFRS 10, Consolidated Financial Statements

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27, *Consolidated and 22 Separate Financial Statements* and Standing Interpretation Committee ("SIC")-12 *Consolidation – Special Purpose Entities*, and is effective for annual periods beginning on or after 01 January 2013. Earlier application is permitted. The Company does not expect the standard to have a material impact on its consolidated financial statements.

c) IFRS 11, Joint Arrangements

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities-Non – Monetary Contributions by Venturers* and is effective for annual periods beginning on or after 01 January 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

d) IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after 01 January 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

e) IFRS 13, Fair Value Measurements

IFRS 13 defines fair value, sets out in a single IFRS framework for measuring value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after 01 January 2013. Earlier adoption is permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

f) Amendments to IAS 1, Presentation of Financial Statements

The amendments introduce changes to presentation of items of other comprehensive income. The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit and loss in the future if certain conditions are met from those that would never be reclassified to profit and loss. The amendments are to be applied effective 01 July 2012 and may be early adopted. The amendments are to be applied retroactively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The Company is currently evaluating the impact of the amendments on its consolidated financial statements.

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g) IAS 19, Employee Benefits (amended standard)

The amended standard introduces various changes in accounting and disclosure requirements for defined benefit plans. The amended standard also finalizes proposals on accounting for termination benefits; under the amended standard the termination benefits are recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, that includes the payment of a termination benefit, and when the entity can no longer withdraw the offer of the termination benefit. The amended standard is to be applied for periods beginning on or after 01 January 2013. Early adoption is permitted. The amendments to the standard do not impact the Company's consolidated financial statements.

h) IAS 27 - Separate financial statements

IAS 27, "*Separate financial statements*" (IAS 27) was re-issued by the IASB in May 2011 to only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The consolidation guidance will now be included in IFRS 10. The amendments to IAS 27 are effective for annual periods beginning on or after 01 January 2013. The standard does not impact the consolidated financial statements.

i) IAS 28, Investments in Associates and Joint Ventures (amended standard)

The standard was updated to incorporate the accounting for joint ventures because the equity method is now applicable to both joint ventures and associates. The disclosure requirements from IAS 28 (as revised in 2003) have been included in IFRS 12.

j) IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 is a new interpretation on the accounting for waste removal activities. The interpretation considers when and how to account separately for the benefits arising from a stripping activity, as well as how to measure such benefit. The interpretation generally requires that costs from a stripping activity which improve access to ore to be recognized as a non-current asset when certain criteria are met and should be accounted as an addition to the related asset. The Company does not expect the standard to impact its consolidated financial statements.

6) Financial Instruments and Risk Management

a) Financial instrument classification and measurement

Financial instruments of the Company carried on the Consolidated Balance Sheet are carried at amortized cost with the exception of cash, which is carried at fair value. There are no significant differences between the carrying value of financial instruments and their estimated fair values as at 31 December 2011 due to the immediate or short-term maturities of the financial instruments.

The fair value of the Company's cash is quoted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy:

Level 1 – quoted prices in active markets for identical financial instruments.

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant and significant value drivers are observable in active markets.

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Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's cash has been assessed on the fair value hierarchy described above and classified as Level 1.

b) Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, accounts payable and due to related parties. At 31 December 2011, the carrying value of cash is fair value. Accounts receivable, accounts payable and due to related parties approximate their fair value due to their short term nature.

c) Market risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. Market risk is comprised of commodity price risk and interest rate risk. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is not exposed to significant market risk.

d) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts. The Company's bank accounts are held with major banks in Canada accordingly the Company believes it not exposed to significant credit risk.

e) Interest rate risk

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to interest rate, as the interest on long-term debt is at a fixed implied rate of 8%.

f) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To manage this risk the Company maintains only the minimum amount of foreign cash required to fund its on-going exploration expenditures. The Company is not exposed to significant foreign currency risk, as a 5% shift in foreign exchange would result in a variance of \$8,500. At 31 December 2011 the Company held currency totalling the following:

	Canadian Dollars	US Dollars
	\$ 1,258,000	\$ 170,000

g) Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. As the Company has no significant source of cash flows this is a significant risk.

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7) Intangibles

Details are as follows:

	Website
Cost or Deemed Cost	
Balance at 01 January 2010	\$ 20,829
Additions	-
Balance at 31 December 2010	\$ 20,829
Balance at 01 January 2011	\$ 20,829
Additions	-
Balance at 31 December 2011	\$ 20,829
Depreciation and Impairment Losses	
Balance at 01 January 2010	\$ 11,622
Depreciation for the year	5,520
Balance at 31 December 2010	\$ 17,142
Balance at 01 January 2011	\$ 17,142
Depreciation for the period	3,687
Balance at 31 December 2011	\$ 20,829
Carrying Amounts	
At 01 January 2010	\$ 9,207
At 31 December 2010	\$ 3,687
At 31 December 2011	\$ -

Intangible assets are stated, in the statement of financial position, at cost less accumulated depreciation and accumulated impairment losses. Assets in the course of construction are carried at cost, less any recognized impairment loss. Depreciation of these assets commences when the assets are ready for their intended use. The cost of intangible assets includes directly attributed incremental costs incurred in their acquisition and installation. Intangible assets consist of capitalized website costs that have been depreciated using the straight-line method over a two-year period.

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8) Property and equipment

Details are as follows:

	Field Equipment	Computer Equipment	Furniture and Fixtures	Land	Total
Cost or Deemed Cost					
Balance at 01 January 2010	\$ 179,421	\$ 28,864	\$ 10,364	\$ -	\$ 218,649
Additions	5,008	-	-	546,321	551,329
Disposals	(179,421)	(28,864)	-	-	(208,285)
Balance at 31 December 2010	\$ 5,008	\$ -	\$ 10,364	\$ 546,321	\$ 561,693
Balance at 01 January 2011	\$ 5,008	\$ -	\$ 10,364	\$ 546,321	\$ 561,693
Additions	59,520	-	-	432,899	492,419
Disposals	-	-	-	-	-
Balance at 31 December 2011	\$ 64,528	\$ -	\$ 10,364	\$ 979,220	\$ 1,054,112
Depreciation					
Balance at 01 January 2010	\$ 107,594	\$ 12,443	\$ 6,633	\$ -	\$ 126,670
Depreciation for the year	27,023	4,329	1,129	-	32,481
Disposals	(134,507)	(16,772)	-	-	(151,279)
Balance at 31 December 2010	\$ 110	\$ -	\$ 7,762	\$ -	\$ 7,872
Balance at 01 January 2011	\$ 110	\$ -	\$ 7,762	\$ -	\$ 7,872
Depreciation for the period	13,059	-	944	-	14,003
Balance at 31 December 2011	\$ 13,169	\$ -	\$ 8,706	\$ -	\$ 21,875
Carrying Amounts					
At 01 January 2010	\$ 71,827	\$ 16,421	\$ 3,731	\$ -	\$ 91,979
At 31 December 2010	\$ 4,898	\$ -	\$ 2,602	\$ 546,321	\$ 553,821
At 31 December 2011	\$ 51,359	\$ -	\$ 1,658	\$ 979,220	\$ 1,032,237

Property, plant and equipment are stated, in the statement of financial position, at cost less accumulated depreciation and accumulated impairment losses. Assets in the course of construction are carried at cost, less any recognized impairment loss. Depreciation of these assets commences when the assets are ready for their intended use. The cost of property, plant, and equipment includes directly attributed incremental costs incurred in their acquisition and installation.

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Depreciation is charged so as to write off the cost of the asset using the straight line method over the estimate useful lives as follows:

Field equipment	3-5 years
Computer equipment	1-5 years
Furniture and fixtures	3-5 years

Depreciation is not provided for on land.

Assets held under capital lease are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

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9) Resource Properties

a) Resource property expense

Summary of resource property exploration expenditures for the year ended 31 December 2010 and 2011 are as follows:

	Idaho Gold Properties
Exploration expenditures	
Administration	\$ 147,160
Assaying	603,078
Claim fees	221,271
Drilling	2,516,190
Field transport	3,703
General	44,643
Geological	681,676
Geophysical	103,495
Reports and mapping	8,986
Stock-based compensation	71,600
Surface access	16,301
Period ended 31 December 2010	\$ 4,418,103
Administration	\$ 17,960
Assaying	764,115
Claim fees	427,044
Drilling	3,772,452
Field transport	9,042
General	27,682
Geological	886,337
Geophysical	34,985
Reports and mapping	101,256
Stock-based compensation	62,400
Surface access	9,086
Period ended 31 December 2011	\$ 6,112,359
Property acquisition costs	
Balance at 01 January 2010	\$ 249,889
Acquisitions	2,117,757
Balance at 31 December 2010	\$ 2,367,646
Balance at 01 January 2011	\$ 2,367,646
Acquisitions	-
Balance at 31 December 2011	\$ 2,367,646

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

On 17 June 2010 the Company entered into an agreement with its wholly owned subsidiary Premium USA, Clearwater Mining Corporation, ("Clearwater"), and Rod Nicholls and Ellen Steiner ("Shareholders"), whereby the Company, through its subsidiary, acquired 100% of the shares of Clearwater from the shareholders. Subsequent to the transaction, Clearwater was merged into Premium USA.

Clearwater held title to the Friday-Petsite, Buffalo Gulch, Dixie, Deadwood and Gallagher mineral properties in Idaho, USA, which are collectively known as the Idaho Gold Properties. The transaction closed on 02 July 2010 when the company issued 3,000,000 shares to the Shareholders. The transaction is subject to a NSR of 1%, which is capped at \$3,000,000 and an obligation to deliver to the Shareholders the first 6 bars of gold from production.

Concurrent with this agreement, on 17 June 2010, the Company entered into the Revised Royalty Agreement with Premium USA and Kria Resources Ltd, ("Kria") and Valencia Ventures Inc., ("Valencia") with respect to the Buffalo Gulch mineral properties in Idaho USA. The transaction closed on 02 July 2010 when the Company issued 710,900 shares to each of Kria and Valencia with the final payment of \$200,000 to Valencia and \$250,000 to Kria being made on 21 July 2010. The transaction is subject to a NSR of 0.75% on the Buffalo Gulch project to each of Kria and Valencia.

In accounting for these concurrent transactions management has used the following assumptions:

- The amounts paid to each of the Shareholders, Kria and Valencia were to acquire the complete rights (subject to NSR and delivery of 6 bars of gold) to the Idaho Gold Properties;
- These related party transactions were recorded at the exchange amount, which was the fair value of the consideration given.
- The contingent costs (NSR and gold bars) do not have sufficient surety to be valued and accordingly no value has been assessed. Management will continue to consider this decision as new developments arise.

The assumptions above result in the following values being recorded in the financial statements:

Fair value of consideration paid:	
Fair value of shares issued to shareholders (3,000,000 @ \$0.36)	\$ 1,080,000
Fair value of shares issued to Kria & Valencia (1,421,800 @ \$0.365)	518,957
Cash paid to Kria & Valencia	518,800
	<u>\$ 2,117,757</u>

The fair value of assets and liabilities acquired are as follows, and the purchase price has been allocated accordingly:

Fair value of assets and liabilities acquired:	
Resource property	\$ 2,117,757

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10) Long-term Debt

Details are as follows:

	31 December 2011	31 December 2010
Mortgage on purchased land, with implicit interest calculated at 8%, repayable in annual blended payments of USD\$192,000. The mortgage matures on 18 November 2012 and is secured by the land.	\$ 180,584	\$ 345,381
Current portion – being the balance due 18 November 2012	(180,584)	(174,150)
Mortgage on purchased land, with implicit interest calculated at 8%, repayable in annual blended payments of USD\$141,000. The mortgage matures on 08 September 2013 and is secured by the land.	262,641	-
Current portion – being the balance due 08 September 2012	(143,397)	-
Long-term debt	\$ 119,244	\$ 171,231

11) Share Capital

a) Authorized:

Unlimited common shares without par value.

b) Issued or allotted and fully paid:

During the fourth quarter of fiscal 2011, the Company issued 150,000 shares on the exercise of options.

During the third quarter of fiscal 2011 the Company redeemed a total of 94,000 common shares from Management. The shares were redeemed at \$0.43 per share, which was the most recent 20 day average market price prior to the redemption date. These shares have been cancelled to reduce the number of issued and outstanding listed common shares of the Company in accordance with the policies and requirements of the TSX Venture Exchange.

Also during the third quarter of fiscal 2011, the Company issued 200,000 shares on the exercise of options and 560,000 shares on the exercise of agent's warrants.

During the second quarter of fiscal 2011 the Company issued 50,000 shares on the exercise of options and 12,710,000 shares on the exercise of warrants.

During the first quarter of fiscal 2011 the Company issued 1,090,000 shares on the exercise of options and 1,745,000 shares on the exercise of warrants.

On 06 July 2010 the Company issued 40,000,000 Units for gross proceeds of \$10,000,000. Each Unit consists of one common share and one-half of a common share purchase warrant ("primary warrants"), 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 18 months after the closing date. Each such Unit has the same terms and conditions as those offered under the private placement and is also each comprised of one common share and one-half of a common share purchase warrant ("secondary warrants"), with each whole warrant entitling the holder to acquire an additional common share at a price of \$0.35 per share for an eighteen

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month period following closing. Fair value attributable to warrants attached to the private placement was estimated to be \$2,984,000 and the fair value of brokers warrants issued was estimated to be \$661,920. The Company recognized stock issuance costs of \$1,524,685 in conjunction with the private placement.

During the year ended 31 December 2010, the Company issued 1,392,500 shares on exercise of options for proceeds of \$272,113 and recognized fair value transfers from contributed surplus of \$169,968.

Fiscal 2010 saw 7,130,000 warrants exercised for proceeds of \$1,506,900 and recognized fair value transfers of \$319,111 from contributed surplus.

On 02 July 2010 the Company issued 3,000,000 shares to acquire title to the Idaho Gold Properties (note 9b) and 710,900 shares to each of Kria and Valencia in conjunction with the Revised Royalty Agreement (note 9b).

c) Summary of stock option activity

The Company has adopted an incentive stock option plan to grant options to directors, officers and consultants up to a maximum of 20% of the Company's issued and outstanding common shares. The options are for a maximum term of 5 years and vest as to 25% on the date of grant and 25% each 6 months thereafter and the option exercise price shall not be less than the discounted market price as defined by the TSX-V.

Stock option activity during the year is summarized as follows:

Stock option activity	31 December 2011	Weighted average exercise price	31 December 2010	Weighted average exercise price
Balance – beginning of year	7,222,500	\$ 0.32	6,905,000	\$ 0.30
Granted	250,000	0.41	2,460,000	0.34
Expired	(175,000)	0.30	(750,000)	0.21
Exercised	(1,490,000)	0.31	(1,392,500)	0.50
Balance – end of year	5,807,500	\$ 0.30	7,222,500	\$ 0.32

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Details of stock options outstanding as at 31 December 2011 are as follows:

Expiry Date	Exercise Price	31 December 2011	31 December 2010
01 March 2011	\$ 0.30	-	450,000
15 November 2011	0.20	-	125,000
05 March 2012	0.23	1,050,000	1,050,000
24 April 2012	0.33	130,000	330,000
24 October 2012	0.35	850,000	875,000
15 February 2013	0.66	150,000	150,000
02 May 2013	0.30	400,000	400,000
19 January 2014	0.15	725,000	800,000
05 April 2014	0.15	-	450,000
20 October 2014	0.25	100,000	350,000
30 June 2015	0.36	2,152,500	2,242,500
12 April 2016	0.65	100,000	-
28 November 2012	\$ 0.25	150,000	-
		5,807,500	7,222,500

The outstanding options have a weighted-average exercise price of \$0.31 (31 December 2010 - \$0.30) and the weighted-average remaining life of the options is 1.52 (31 Dec 2010 – 2.83) years. As at 31 December 2011, a total of 5,670,000 (31 December 2010 – 5,551,725) of these outstanding options had vested. As at 31 December 2011, none (31 December 2010 – 6,286,250) of the outstanding options were in the money.

d) Warrants

Warrant activity during the year is summarized as follows:

Warrant activity	31 December 2011 (i)	Weighted average exercise price	31 December 2010 (i)	Weighted average exercise price
Balance – beginning of year	35,819,000	\$ 0.32	23,409,166	\$ 0.30
Issued	-	-	22,940,000	0.34
Exercised	(15,015,000)	0.30	(7,130,000)	0.21
Expired	(135,000)	0.50	(3,400,166)	0.50
Balance – end of year ⁽ⁱⁱ⁾	20,669,000	\$ 0.34	35,819,000	\$ 0.32

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

(ii) Subsequent to the year end, all warrants issued and outstanding have expired. Refer to note 14.

Details of warrants outstanding as at 31 December 2011 are as follows:

Issued	Expiry	Exercise Price	31 December 2011	31 December 2010
29 May 2009	29 May 2011	\$ 0.20 / 0.50	-	235,000
23 October 2009	23 April 2011	0.30	-	6,945,000
12 November 2009	12 May 2011	0.30	-	6,125,000
05 July 2010	05 January 2012	0.35	19,709,000	19,994,000
05 July 2010	05 January 2012	\$ 0.25	960,000	2,520,000
			20,669,000	35,819,000

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e) Stock-based compensation

For the years ended 31 December 2011 and 2010, the Company issued stock options to its directors, officers, employees, and consultants and recognized stock-based compensation as follows:

	31 December 2011	31 December 2010 <i>Restated IFRS</i>
Total options granted	250,000	2,460,000
Average exercise price	\$ 0.41	\$ 0.36
Estimated fair value of compensation	\$ 63,000	\$ 677,000
Estimated fair value per option	\$ 0.25	\$ 0.22

The fair value of the stock-based compensation of options to be recognized in the accounts has been estimated using the Black-Scholes Model with the following weighted-average assumptions:

	31 December 2011	31 December 2010
Risk free interest rate	1.72	1.54
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	104.00%	131.00%
Expected option life in years	3 – 5	5

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

	31 December 2011	31 December 2010
Number of options vested	840,000	2,905,000
Compensation recognized	\$ 236,472	\$ 509,978

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.

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12) Related Party Transactions

Related party transactions and balances not disclosed elsewhere in the financial statements are as follows:

Related Party Disclosure

Name and Principal Position	Period ⁽ⁱ⁾	Remuneration or fees ⁽ⁱⁱ⁾	Share-based awards
CEO and President - Del Steiner – management fees	2011	\$ 124,853	\$ 18,700
	2010	211,164	49,600
Clearline Chartered Accountants ⁽ⁱⁱⁱ⁾ – management fees	2011	90,457	12,900
	2010	94,400	33,100
Clearline Chartered Accountants ⁽ⁱⁱⁱ⁾ – professional fees	2011	18,917	-
	2010	8,965	-
CFO – Grant T. Smith	2011	-	-
	2010	40,000	-
Robert Komarechka – Director	2011	-	11,700
	2010	-	29,200
Colin Jones – Director	2011	-	11,700
	2010	-	28,400
Patrick Sam Yue – Director ^(iv)	2011	-	11,700
	2010	-	28,400
Dr. Guojian Xu - Director	2011	-	11,700
	2010	-	28,400
Ken Booth – Director ^(v)	2011	-	5,300
	2010	-	-
Ellie Steiner ^(vi)	2011	29,727	-
	2010	-	-

- i) For the years ended 31 December 2011 and 2010
- ii) Amounts disclosed were paid or accrued to the related party
- iii) A company of which the CFO, Grant T. Smith, is a director
- iv) Resigned from the Board of Directors on 28 November 2011
- v) Appointed to the Board of Directors on 28 November 2011
- vi) An individual related to an officer of the Company

At 31 December 2011, management fees of \$35,900 (2010 – \$70,000) and professional fees of \$2,956 (2010 - \$Nil), payable to related parties, were included in accounts payable.

These transactions were in the normal course of operations and are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

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13) Segmented Disclosure

The following table provides segmented disclosure on assets liabilities as reviewed by management regularly:

Rounded to 000's	Canada	United States	Total
31 December 2011			
Current Assets	\$ 1,709,000	\$ 168,000	\$ 1,877,000
Long-term Assets			
Property and equipment	2,000	1,030,000	1,032,000
Intangibles	-	-	-
Resource properties	-	2,368,000	2,368,000
Liabilities			
Current Liabilities	341,000	531,000	872,000
Note payable	-	119,000	119,000
31 December 2010			
Current Assets	\$ 5,489,000	\$ 49,000	\$ 5,538,000
Long-term Assets			
Property and equipment	3,000	554,000	557,000
Intangibles	4,000	-	4,000
Resource properties	-	2,368,000	2,368,000
Liabilities			
Current Liabilities	264,000	405,000	669,000
Note payable	-	171,000	171,000

14) Capital Disclosures

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is in the business of mineral exploration and has no source of operating revenue. Operations are financed through the issuance of capital stock. Capital raised is held in cash in an interest bearing bank account until such time as it is required to pay operating expenses or resource property costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company's objectives have not changed during the year ended 31 December 2011.

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15) Commitments

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

The CEO, 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 \$10,500. This contract may be cancelled upon the Company providing six months advance notice.

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

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16) Income Taxes

The income tax provision differs from income taxes, which would result from applying the expected tax rate to net loss before income taxes. The difference between the “expected” income tax expense and the actual income tax provision are summarized as follow:

	2011		2010
Income tax (loss) before income taxes	\$ (8,340,000)	\$	(6,731,000)
Canadian statutory income tax rate	26.5%		28.5%
Computer “expected” income tax expense	(2,210,000)		(1,918,000)
Differences resulting from:			
Share based payments	63,000		145,000
Other permanent differences	(11,000)		12,000
Foreign exchange	(130,000)		(249,000)
Change in enacted rate and other	17,000		58,000
Tax rate differences	(593,000)		(504,000)
Adjustment from prior year	-		(850,000)
Increase in deferred tax assets not recognized	2,864,000		3,306,000
Provision for income taxes	\$ -	\$	-

The tax effects of deductible and taxable temporary differences that give rise to the Company’s future tax assets and liabilities are as follows:

	2011		2010
Deferred income tax assets - Canada			
Non-capital loss carry forwards	\$ 1,740,000	\$	1,392,000
Share issuance costs	137,000		191,000
Property and equipment	2,000		14,000
Canadian deferred income tax asset not recognized	1,879,000		1,597,000
Deferred income tax assets – US			
Mineral resource properties	3,544,000		1,418,000
Non-capital loss carry forwards	1,089,000		611,000
Property and equipment	1,000		23,000
US deferred income tax asset not recognized	4,634,000		2,052,000
Deferred income tax assets – Mexico			
Non-capital loss carry forwards	827,000		827,000
Mexican deferred income tax asset not recognized	827,000		827,000
Total deferred income tax asset not recognized	\$ 7,340,000	\$	4,476,000

The Company has Canadian non-capital loss carry forwards of approximately \$6,960,000 which will expire between 2014 and 2031, US non-capital loss carry forwards of approximately \$3,112,000 which will expire between 2028 and 2031, and Mexican non-capital loss carry forwards of \$3,309,000 which will expire between 2016 and 2021.

Deferred tax assets have not been recognized because at this stage of the Company’s development, it is not determinable that future taxable profit will be available against which the Company can utilize such deferred income tax assets.

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17) Contingent Liability

Premium controls 5 patented claims. Within the patented claims the original purchase was for the property exclusive of the mineral rights, since the real property is desirable for the ability to place living and storage facilities, but the Company decided to follow-up and obtain the mineral rights as well. There remains a 37.5% interest in these mineral rights which is under dispute. The Company is unable to make a reliable estimate of the cost or likelihood of settlement and accordingly no provision has been made in these financial statements.

18) Subsequent Events

As at 31 December 2011 the Company was considering filing a short-form prospectus. Subsequent to the year end the Company decided not to proceed and cancelled the offering.

As at 31 December 2011 the Company had 20,669,000 warrants issued and outstanding. All of these warrants subsequently expired on 05 January 2012. As of the date of this report, the Company had zero warrants issued and outstanding.

On 16 January 2012 the Company appointed Mike Vint, B.Sc., P.Eng, to the Board of Directors. In connection with this appointment, the Company granted him 150,000 options at an exercise price of \$0.20 per share which are valid for a period of three years from the grant date.

19) IFRS Adjustments

IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position dated 01 January 2010:

a) Cumulative translation differences

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates for cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative translation difference and adjusted retained earnings by the same amount at the date of transition to IFRS. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

b) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before 07 November 2002, or equity instruments that were granted subsequent to 07 November 2002 and vested before the later of the date of transition to IFRS and 01 January 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to 01 January 2010.

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IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated 01 January 2010:

c) Assets and liabilities of subsidiaries and associates

In accordance with IFRS 1, if a parent company adopts IFRS subsequent to its subsidiary or associate adopting IFRS, the assets and the liabilities of the subsidiary or associate are to be included in the consolidated financial statements at the same carrying amounts as in the financial statements of the subsidiary or associate. The adoption of this standard has no impact on the financial statements of the Company.

d) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of 01 January 2010 are consistent with its Canadian GAAP estimates for the same date.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of operations, statement of comprehensive profit, statement of financial position and statement of cash flows for the quarter ended 31 May 2010 and the year ended 31 December 2010 have been reconciled to IFRS, with the resulting differences explained.

e) Share based payments

IFRS

- Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.
- Forfeiture estimates are recognised in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

Canadian GAAP

- The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognised on a straight-line basis over the vesting period.
- Forfeitures of awards are recognised as they occur.

As a result of the exemption discussed and taken under IFRS 1 Note 15(b).

f) Accounts payable, accrued liabilities and provisions

IFRS

- A provision is a liability of uncertain timing or amount. Provisions are disclosed separately from liabilities and accrued liabilities and require additional disclosure.

Canadian GAAP

- Accounts payable, accrued liabilities and provisions may be disclosed on the statement of financial position as a single line item. This had no material impact on these financial statements.

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g) Impairment

IFRS

- If indication(s) of impairment is identified, the asset's carrying value is compared to the asset's discounted cash flows. If the discounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value.

Canadian GAAP

- If indication of impairment is identified, the asset's carrying value is compared to the asset's undiscounted cash flows. If the undiscounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value.

h) Presentation

The presentation of the cash flow statement in accordance with IFRS differs from the presentation of the cash flow statement in accordance with Canadian GAAP, as is true of the statement of changes in equity.

20) Reconciliation from GAAP to IFRS

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 01 JANUARY 2010

Canadian GAAP accounts	Canadian GAAP	Effect of transition	IFRS	IFRS Accounts
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 1,123,951	\$ -	\$ 1,123,951	Cash and cash equivalents
Receivables	28,222	-	28,222	Amounts Receivable
Prepaid expenses	59,023	-	59,023	Prepaid amounts and deposits
	<u>1,211,196</u>	-	<u>1,211,196</u>	
Non-current Assets				
Intangible Assets (i)	-	9,207	9,207	Intangible Assets
Equipment (i)	101,186	(9,207)	91,979	Equipment
Resource property	249,889	-	249,889	Resource property
	<u>\$ 1,562,271</u>	<u>\$ -</u>	<u>\$ 1,562,271</u>	
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 230,718	\$ -	\$ 230,718	Accounts payable and accrued liabilities
	<u>230,718</u>	-	<u>230,718</u>	
Equity				
Share capital	10,468,438	-	10,468,438	Share capital
Share purchase warrants	1,632,936	-	1,632,936	Share purchase warrants
Contributed surplus (ii)	1,508,483	37,748	1,546,231	Contributed surplus
Deficit (ii)	(12,278,304)	(37,748)	(12,316,052)	Deficit
	<u>1,331,553</u>	-	<u>1,331,553</u>	
	<u>\$ 1,562,271</u>	<u>\$ -</u>	<u>\$ 1,562,271</u>	

- (i) Arises from a transfer of assets from tangible to intangible in accordance with IAS 38 and is presented in accordance with IAS 1 P54. Under Canadian GAAP the Company presented its website as part of tangible property, plant, and equipment. IFRS requires that the same website assets be presented as intangibles, therefore giving rise to the adjustment above.
- (ii) Arises from timing differences in IFRS due to the measurement of specific tranches

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RECONCILIATION OF CONSOLIDATED STATEMENT OF LOSS, COMPREHENSIVE LOSS AND DEFICIT FOR THE YEAR ENDED 31 DECEMBER 2010

Canadian GAAP accounts		Canadian GAAP	Effect of transition	IFRS	IFRS Accounts
Operating loss	(i)	\$ (6,638,061)	\$ (47,895)	\$ (6,685,956)	
Loss and comprehensive loss for the period	(i)	(6,686,133)	(47,895)	(6,734,028)	
Loss per share – Basic and Diluted		\$ (0.06)	\$ -	\$ (0.06)	

(i) Arises from timing differences in IFRS due to the measurement of specific tranches

RECONCILIATION OF CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

Canadian GAAP Accounts		Canadian GAAP	Effect of transition	IFRS	IFRS Accounts
Cash Flow from Operations					
Net loss	(i)	\$ (6,686,133)	\$ (47,895)	\$ (6,734,028)	
Items not involving cash					
Amortization of equipment		46,935	-	46,935	Amortization of equipment
Stock-based compensation	(i)	462,083	47,895	509,978	Stock-based compensation
Foreign exchange (gain) loss		48,072	-	48,072	Foreign exchange (gain) loss
		(6,129,043)		(6,129,043)	
Changes in non-cash working capital		142,776	-	142,776	Changes in non-cash working capital
		5,986,267		5,986,267	
Investing Activities					
Acquisition of equipment		(551,329)	-	(551,329)	Acquisition of equipment
Resource property purchased		(518,799)	-	(518,799)	Resource property purchased
		(1,070,128)	-	(1,070,128)	
Financing activities					
Issuance of shares for cash		8,795,013	-	8,795,013	Issuance of shares for cash
Issuance of share purchase warrants		2,984,000	-	2,984,000	Issuance of share purchase warrants
Unit offering issuance costs		(862,768)	-	(862,768)	Unit offering issuance costs
Issuance of notes payable		345,381	-	345,381	Issuance of notes payable
Cash resources provided by (used in)		11,261,626	-	11,261,626	
Change in cash for the period		4,205,231	-	4,205,231	
Cash – beginning of year		1,123,951	-	1,123,951	
Cash – End of Period		\$ 5,329,182	\$ -	\$ 5,329,182	

(i) Arises from timing differences in IFRS due to the measurement of specific tranches

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RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

Canadian GAAP accounts	Canadian GAAP	Effect of transition	IFRS	IFRS Accounts
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 5,329,182	\$ -	\$ 5,329,182	Cash and cash equivalents
Accounts receivable	141,392	-	141,392	Amounts receivable
Prepaid expenses	67,451	-	67,451	Prepaid amounts and deposits
	<u>5,538,025</u>	<u>-</u>	<u>5,538,025</u>	
Non-current Assets				
Intangible assets (i)	-	3,687	3,687	Intangible assets
Property and equipment (i)	557,508	(3,687)	553,821	Property and equipment
Resource property	2,367,646	-	2,367,646	Resource property
	<u>\$ 8,463,179</u>	<u>\$ -</u>	<u>\$ 8,463,179</u>	
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 495,092	\$ -	\$ 495,092	Accounts payable and accrued liabilities
Current portion of long-term debt	174,150	-	174,150	Current portion of long-term debt
	<u>669,242</u>	<u>-</u>	<u>669,242</u>	
Long-term liabilities				Non-current liabilities
Long-term debt	171,231	-	171,231	Long-term debt
	<u>171,231</u>	<u>-</u>	<u>171,231</u>	
Equity				
Share capital	19,826,801	-	19,826,801	Share capital
Share purchase warrants	4,959,744	-	4,959,744	Share purchase warrants
Contributed surplus (ii)	1,800,598	85,643	1,886,241	Contributed surplus
Deficit (ii)	(18,964,437)	(85,643)	(19,050,080)	Deficit
	<u>7,622,706</u>	<u>-</u>	<u>7,622,706</u>	
	<u>\$ 8,463,179</u>	<u>\$ -</u>	<u>\$ 8,463,179</u>	

(i) Arises from a transfer of assets from tangible to intangible in accordance with IAS 38 and is presented in accordance with IAS 1 P54. Under Canadian GAAP the Company presented its website as part of tangible property, plant, and equipment. IFRS requires that the same website assets be presented as intangibles, therefore giving rise to the adjustment above.

(ii) Arises from timing differences in IFRS due to the measurement of specific tranches



REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS
OF THE FINANCIAL POSITION AND RESULTS OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2011

Date: 09 April 2012

To Our Shareholders:

This Management Discussion and Analysis (“MD&A”) supplements, but does not form part of, the Interim Consolidated Financial Statements for the year ending 31 December 2011. 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 audited Financial Statements for the year ended 31 December 2011, and related notes therein, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), 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. 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 or through the SEDAR website at www.sedar.com.

The table below sets forth the significant forward-looking information included in this MD&A:

Forward-Looking Information	Key Assumptions	Most Relevant Risk Factors
The new claims acquired by the Company that reside along the Orogrande Shear Zone are a significant gain for the Company	The properties will contain zones of mineralized content and hold potential for open pit mining	The properties may not contain the amount of mineralization expected by Management and may not ultimately result in a viable resource.
Future funding for ongoing operations	The Company will be able to raise these funds	The Company has disclosed that this may be difficult and failure to raise these funds will materially impact the Company’s ability to continue as a going concern

General

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

Premium’s Idaho Gold Project (formerly called the Idaho Gold Properties) resides along a 30 Km trend, known as the Orogrande Shear Zone (“OSZ”). The Idaho Gold Project consists of six known zones within the OSZ: the Buffalo Gulch Zone; the Deadwood Zone; the Friday Zone; the Project X Zone and the recently discovered Monday and Lucky Strike Zones. These zones have been interpreted to be the result of a high-grade conduit and feeder model.

Premium’s Chrome Mountain Property is located within the Stillwater Igneous Complex in South-Central Montana. The property is a 1,473 hectare, PGE target, located approximately 1.5 Km from Stillwater Mining Companies East Boulder Mine. Limited exploration programs in 2007 and 2008, ~5 Km of soil sampling program along strike identified an extensive platinum and palladium anomaly. Premium’s geologists have concluded that the PGE

mineralization on the Chrome Mountain Property may have been formed by a similar type of process that formed the Platreef disseminated PGE-Cu-Ni and UG2 deposits in South Africa.

1) Significant Events and Transactions during the Period

a) Corporate operations:

On the 28th of November, 2012, Premium's Board of Directors announced the appointment of Ken Booth, to its Board. Mr. Booth brings over 30 years of experience in mining and exploration, corporate finance, and the management of public companies. He has worked for two of Canada's largest investment banks executing numerous equity financings for both junior and senior companies and was involved in a number of significant mergers and acquisitions. Mr. Booth has held several positions including CEO and Vice-President of Corporate Development while working with resource companies. In these roles he was instrumental in securing equity funding and negotiating property acquisitions, and joint ventures. Mr. Booth holds an MBA from St. Mary's University and a Bachelor of Science in geology from Carleton University. He is a Director of El Tigre Silver Corp. and Invenio Resources Corp.; both companies are listed on the TSX Venture Exchange.

Mr. Booth was also granted 150,000 stock options at an exercise price of \$0.25 per share which are valid for a three year period from the date of the grant.

Premium also announced that the Company had entered into a financing agreement with a group of agents led by Alliance Industrial Securities Inc. and Casimir Capital Ltd for gross proceeds of up to \$7.5 million through the sale of the units. The Units were announced to be priced in the context of the market and were offered by way of a short form prospectus in Canada and may be offered in such other jurisdictions outside of Canada, including the United States, which are agreed to by the Company and the Agents, where the Units can be issued on a private placement basis, exempt from any prospectus, registration or other similar requirements.

The Units would be comprised of one common share in the capital of the Corporation and one-half of one common share purchase warrant (each whole warrant a "Warrant"). Each Warrant would entitle its holder to purchase one common share (each a "Warrant Share") over a period of 18 months and would be priced in the context of the market. In December, the Company announced that the Unit price for the financing would be \$0.15. Each Unit would include one-half of one common share purchase warrant at a price of \$0.25 for a period of 24 months.

The offering was undertaken on a fully marketed basis by the Agents. The Agents will be paid a commission of 7.5% of the gross proceeds from the sale of Units. Completion of the offering was subject to the Corporation and the Agents entering into a formal agency agreement as well as receipt of the approval of the TSX Venture Exchange and other customary closing conditions.

The Company granted the Agents an option, exercisable at the negotiated issue price for a period of 30 days following the closing of this offering, to purchase Units for up to an additional 15% of the maximum offering to cover over-allotments, if any. The net proceeds from the offering were to be used to advance exploration on its projects and for general corporate purposes.

The offering was scheduled to close in late December 2011.

b) Exploration:

Deadwood Zone:

In October, the Company announced that surface grab samples from the Deadwood Zone had returned encouraging grades from two separate mineralised systems. Premium’s primary focus is a lower grade, bulk-tonnage target; however a higher grade cross-cutting quartz vein system has been recognised. Deadwood drill-holes exhibit similar geological, structural, alteration, and sulphide mineralisation characteristics of the Friday Zone located 12 km to the south, which hosts the current NI 43-101 compliant resource. Deadwood is one of several mineralised zones along the 30 km Orogrande Shear Zone (OSZ) regional system; all mineralised zones are linked by the 30 km geophysical anomaly with co-incident 16 km gold-in-soil trends.

The grab samples were taken from a quartz vein system along 50 meters of strike length and all returned +10 g/t Au results from the fire assay analyses. The balance of the grab samples are taken from sheared and altered country rock with up to 5% pyrite occurring as disseminated and in veinlet’s. Widely spaced drill-holes are drilled along a 400 metre portion of the 12 km gold-in-soil anomaly that trends through the Deadwood and Buffalo Gulch Zones and correlates with the 30 km OSZ structure.

In December, Premium announced that the first six of nine holes drilled within the Deadwood Zone resulted in four widely spaced gold discoveries in host rocks identical to the Friday Zone. Gold bearing structures with cross-cutting dilatant zones are the optimum targets where gold deposition is typically enhanced in both size and grade. Drilling encountered gold-bearing host rocks and structures identical to the Friday Zone in multiple locations throughout the Deadwood Zone. Five drill holes (DW2011-1, 3, 4, 5 and 6) intercepted three separate mineralised zones and together demonstrate potential continuity along 1.3 km of strike length. Drill hole DW2011-2 discovered a high-grade vein system, intersecting gold-bearing host rocks identical to those found at the Friday Zone.

Drill-Hole	Zone	From (m)	To (m)	Interval (m)	Au g/t
DW2011-1	Deadwood	35.1	36.9	1.8	1.0
	<i>as well as</i>	72.9	76.5	3.7	0.3
DW2011-2	Deadwood	170.1	172.8	2.7	4.5
	<i>as well as</i>	194.5	195.1	0.6	11.2
	<i>within</i>	191.1	195.7	4.6	2.0
	<i>as well as</i>	492.9	493.5	0.6	3.5
DW2011-3	Deadwood	98.8	105.8	7.0	0.3
	<i>as well as</i>	112.5	117.4	4.9	0.5
DW2011-4	Deadwood	339.9	342.6	2.7	1.6
	<i>within</i>	336.8	345.3	8.5	1.0
	<i>within</i>	336.8	353.9	17.1	0.7
	<i>within</i>	267.6	368.5	100.9	0.3
DW2011-5	Deadwood	70.1	73.2	3.1	1.4
	<i>within</i>	68.3	75.9	7.6	0.9
	<i>within</i>	68.3	86.3	18.0	0.5
	<i>as well as</i>	171.6	176.2	4.6	1.2
	<i>within</i>	166.1	176.2	10.1	0.8
DW2011-6	Deadwood	98.8	111.9	13.1	0.3
	<i>as well as</i>	219.5	220.4	0.9	1.3

*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. True Widths are unknown at this time.

Friday Zone:

Eighteen drill holes had been completed within 4,374.2 metres. These holes encountered alteration and sulphide mineralization consistent with the OSZ. Drilling on the Friday Zone is designed to locate and intersect the Friday Fault at depth, along strike to the north and south, and to test 5Km of potential strike length identified by gold-in-soils and geophysics. The first seven holes were located within the current Friday-Petsite resource footprint and the remaining holes relate to step-out drilling which has increased the strike length of the Friday Main Zone an additional 200 metres to the south for a total strike length of 1,700 metres which represents a 113% increase. Given the demonstrated potential for significant resource expansion, planning is underway for an infill drill program focused on expanding the Friday-Petsite resource.

Chrome Mountain, Montana, USA

In late September, the Company initiated a property review of the Chrome Mountain Platinum Group Metals (“PGM”) Project located within the Stillwater Complex, Montana, USA. Premium retained 100% ownership of Chrome Mountain subsequent to the expiry of a joint venture with Beartooth Platinum Corp. Premium believes there is a strong long-term outlook for platinum, palladium, rhodium, and base metals. As such Management is re-evaluating the property and reviewing strategic alternatives for optimizing shareholder value.

The review and positioning of the property includes the following:

- Claim status
- Plan of Operations for drilling
- Limited program of geological mapping, prospecting, and soil sampling program

2) Significant Events and Transactions Subsequent to the Period

On the 16th of January, 2012, Premium’s Board of Directors announced the appointment of Mike Vint, B.Sc. (Mining), B.Eng. to its Board. Mr. Vint is Vice President of Mining for Endeavour Financial Corp., an advisory service which specializes in debt, mergers and acquisitions, and corporate finance where he is responsible for mine technical analysis. He has over 18 years of industry experience primarily in mine operations, with the last six years focusing on mine valuation, finance, mergers and acquisitions, and RTO’s. In conjunction with his appointment, Mr. Vint was granted 150,000 stock options at an exercise price of \$0.20 per share which are valid for a three year period from the date of the grant.

On the 14th of March, 2012, Premium announced that due to the result of comments received from the British Columbia Securities Commission (the “BCSC”) on the most recent technical report (the “Report”), by Mark Pfau on the Company’s Idaho Gold Project filed on SEDAR on September 30, 2011 dated effective March 28, 2011, the Company determined that it would not proceed with the contemplated short form prospectus offering (the “Offering”) of up to \$7.5 million, previously disclosed in the releases dated November 28, 2011 and December 15, 2011. As the Report is not currently compliant under National Instrument 43-101 (“NI 43-101”), the resource estimates disclosed thereunder should not be relied upon until the Company files a technical report which is compliant under NI 43-101.

To address the concerns raised by the BCSC about the Report and the resource estimates contained within the Friday-Petsite Zone, Premium engaged an additional independent qualified person to assist in the update of the Report to bring it into compliance as soon as practicably possible. Accordingly, the new qualified person will review the input database, the assumptions, parameters and methods used to estimate current mineral resources and will revise the estimates as necessary. The Company expects its new additional qualified person to complete the update of the Report by approximately the end of May 2012, which is dependent upon weather conditions allowing access to the property site.

As at 31 December 2011 the Company had 20,669,000 warrants issued and outstanding. All of these warrants subsequently expired on 05 January 2012. As of the date of this report, the Company had zero warrants issued and outstanding.

3) Mineral Exploration

a) Chrome Mountain, Montana, USA

The Chrome Mountain Project is a PGE target consisting of 182 contiguous claims in 1,473 hectares along 10Km of strike length on the Stillwater Complex in south-central Montana. A limited amount of exploration has been completed on the property which included 5Km long PGE-in-soil anomaly; drilling of 19 holes during 2007 and 2008; surface mapping; and airborne and ground geophysics.

Drilling confirmed potential PGE mineralization along the A-B Chromitite Zone with intervals of up to 1.0 g/t PT+PD over 116.7 m with higher-grade intervals of up to 4.0 g/t PT+PD over 7.3 m. The A-B Chromitite Zone is characterized by high-grade narrow horizons within a broad envelope of disseminated lower-grade mineralization.

An exploration program has been designed to follow-up on the A-B Chromitite Zone. A conceptual model has been developed by Premium and is designed to test for lateral continuity along strike. Exploration may include 5Km of PGE-in-soil sampling; 5 Km² of surface geological mapping; and 5,000 m of drilling.

b) Idaho Gold Project, Orogrande Shear Zone – Idaho, USA

The Orogrande Shear Zone is a trend of gold mineralization +30 Km in strike length and hosts many of the 219 mapped prospects which make up “Elk City Gold Belt”. This includes at least 20 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. The OSZ is believed to be the mineralizing conduit for the entire 30 Km strike length of the geologic structure. A +12,000 metre drill program, covering Phases One, Two and Three was completed in Q4 2010 (see Friday Zone for additional detail).

Premium now controls 2,127 unpatented claims, 5 patented claims, and one State of Idaho Minerals Lease over 12,472 hectares which together comprises a large portion of the +30Km Orogrande Shear Zone trend, and which is composed of the following 6 Zones; Buffalo Gulch, Deadwood, Lucky Strike, Friday, Monday, and Project X.

Within the patented claims the original purchase was for the property exclusive of the mineral rights, since the real property is desirable for the ability to place living and storage facilities, but the Company decided to follow-up and obtain the mineral rights as well. There remains a 37.5% interest in these mineral rights which is under dispute. The Company is unable to make a reliable estimate of the cost or likelihood of settlement and accordingly no provision has been made in these financial statements.

c) Buffalo Gulch Zone - Idaho, USA

Buffalo Gulch is the most northern zone along the 30 Km Idaho Gold Project in North-Central Idaho under Premium’s control and hosts an historic 111,000 oz. Indicated gold resource in 4.8 Mt @ 0.8 g/t Au (0.4 g/t cut-off)*

The target zone at Buffalo Gulch consists of 4 Km of the 12 Km correlating gold-in-soil and airborne geophysical anomalies along the main 30 Km trend. The Buffalo Gulch Zone will be further explored in the Phase Four Drill Program with gold-in-soil sampling, geophysics, and drilling. The deposit was once fully permitted for open-pit production in 1991 by Bema Gold Inc. however the deposit did not reach the production stage due to low gold prices.

The existing historic oxide deposit, as delineated by previous operators, is open along strike and depth and is located within 0.5 Km of the 4.0 Km of soil and geophysical anomalies. To date, no drilling at depth beyond 150 metres has been conducted to test high-grade sulphide potential.

**The historic resources as calculated by the Bema Gold subsidiary "Idaho Gold Corporation" were prepared prior to the introduction of NI43-101, but were carried out in accordance with established practice at that time. Idaho Gold estimated "proven and probable geologic reserves" of oxide material to a depth of 220 feet as 4.839 million short tons at a grade of 0.023 ounce/ton containing 110,759 troy ounces of gold*.*

**The resource estimate was reviewed by Micon International in 2004, and they concluded that the Buffalo Gulch property had historical Mineral Resources of about 5 million tons averaging 0.023 oz/ton Au (4.5 million tonnes at 0.8 g/t Au), comparable to an indicated resource. No cut-off grade was provided.*

**Estimates of gold resources/deposits are historical in nature, predate and are noncompliant with NI 43-101. Premium is not treating the historical estimate as current mineral resources or reserves. Premium has not undertaken any independent investigation of the resource estimates nor has it independently analyzed the results of the previous exploration work in order to verify the resources, and therefore the historical estimates should not be relied upon. The historical classes used by Idaho Gold are different from current CIM classes, however, they might be comparable to the CIM inferred or indicated resource classes.*

d) Buffalo Gulch Historic Metallurgical Work

Previous operators include Bema Gold, Cyprus-Amax, and Kinross Gold Corp in the 1990's and left the area due to low gold prices (~\$350/oz.). As part of its exploration program on this prospect Bema Gold Corporation conducted bottle-roll and column testing on the resource with the latter showing 75% recovery of the gold in oxide material after 25 days. The bottle-roll tests showed recoveries of both oxidized and sulphide material to be in the range of 75% to 90%.

Successful cyanide bottle roll extraction tests and column tests culminated in two pilot scale heap leach tests in the field and confirmed the favourable leaching parameters for the mineralized material. Based on the positive tests from these results; economic and production analysis were conducted by the Bema Gold subsidiary "Idaho Gold Corporation" in 1990; independent engineering group MRDI in 1991; independent engineering group MRDI in 1996; and independent engineering group Golder and Associates in 2006. The analysis by Idaho Gold and MRDI were prepared prior to the introduction of NI 43-101, but were carried out in accordance with established practice at that time.

The prior economic analyses did not apply current parameters or assumptions, and they should not be relied on. Analyses done subsequent to the introduction of NI 43-101 were not based on a current resource estimate, as required by NI 43-101. The company previously disclosed basic economic parameters for Buffalo Gulch on its website; however, these were premature and should not be relied upon.

e) Deadwood Zone – Idaho, USA

The Deadwood Zone covers approximately 35 km², is located between the Buffalo Gulch and Friday Zones along the Idaho Gold Project, and exhibits intriguing structural complexity.

A 12 km gold-in-soil trend extends along the Buffalo Gulch and Deadwood Zones and correlates with the 30 Km OSZ regional structural target identified by geophysics. There are numerous, additional gold-in-soil anomalies that correlate with multiple cross-cutting structures, historic mines, placer deposits and prospects throughout the 35 km² Deadwood Zone.

A limited number of shallow RC drill-holes were drilled by previous operators which identified an historic deposit of Indicated and Inferred ounces of gold:

38,940 Indicated oz gold in 1.6 Mt at 0.75 g/t Au with 0.4 g/t Au cut-off;

18,480 Inferred oz gold in 0.7 Mt at 0.75 g/t Au with 0.4 g/t Au cut-off

The historic deposit is located along 1.0 Km of the 12 Km gold-in-soil anomaly. The deposit remains open in all directions and has yet to be drilled by Premium utilizing the new geological model. The 2011 Phase-4 drill plan for the Deadwood Zone is an aggressive campaign to discover and delineate numerous mineralized structures. Additional soil sampling and geophysics are also planned.

**All estimates of gold resources/deposits are historical in nature, predate and are non-compliant with NI 43-101. This historic resource estimate was reviewed by Micon International in 2004. Premium is not treating the historical estimate as current mineral resources or reserves. Premium has not undertaken any independent investigation of the resource estimates nor has it independently analyzed the results of the previous exploration work in order to verify the resources, and therefore the historical estimates should not be relied upon.*

f) Lucky Strike Zone – Idaho, USA

Lucky Strike was discovered at the end of the 2010 season when geophysics revealed an 18 km long, potentially mineralized structure. The Lucky Strike Zone is located to the west of and parallel to the Buffalo Gulch and Deadwood Zones. It is the first area of focus for the 2011 soil sampling program. The program is following up on a gold-in-soil discovery along 1.0 Km of the 18 Km interpreted structure. The anomaly peaked at 265 ppb Au.

This zone has not been systematically explored, soil sampled, or drilled, however, a 3.5 km portion of the 18 Km structure was extensively dredged and heavily panned for gold in the late 1800’s to early 1990’s during the Great Idaho Gold Rush. Previous operators never identified the source of the mineralized system. Pending favourable soil results along the 18 km long zone, Premium anticipates drilling the Lucky Strike in Phase-Four.

g) Friday Zone – Idaho, USA

The property is located toward the southern extension of the Idaho Gold Project. The Friday-Petsite deposit is located within the Friday Zone. Two past-producing mines locally known as the Orogrande Mine and the Frisco Pit are located within the deposit footprint.

In Q4 of 2010, Premium completed a +12,000 metre drill program, covering Phases One, Two and Three in Q4 of 2010.

PHASE ONE DRILL PROGRAM: JUNE 2009 – AUGUST 2009		
CORE HOLES – 7 HQ	DRILL DEPTH – 153 METRES	FOOTAGE – 853.4 METRES
Phase One was designed to delineate the high-grade component of the resource, test the continuity of mineralization of the OSZ along strike to the north and south of the existing resource, and to provide minor in-fill drilling. The geologic model developed by Premium confirmed a steep easterly dip and intersected the OSZ to the north and south of the main zone of mineralization.		

PHASE TWO DRILL PROGRAM: SEPTEMBER 2009 –DECEMBER 2009		
CORE HOLES – 6 HQ	DRILL DEPTH –275 METRES	FOOTAGE – 1,969.9 METRES
<p>This program further delineated the northern and southern extension of mineralization for additional strike length of 560 metres. The drill holes in this phase encountered similar geology, structures, and mineralization as seen in Phase One, and all holes intercepted mineralization at depth and along strike. The results of the Phase Two program have led to a better understanding of the geologic and structural controls of the mineralized zone. The mineralization encountered in the drill holes consists of high grade core within a broad envelope of lower grade gold mineralization which has been intruded by a post mineral Dacite Dike.</p>		

PHASE THREE DRILL PROGRAM: APRIL 2010 –DECEMBER 2010		
CORE HOLES – 24 HQ	DRILL DEPTH – AVG. 300 METRES	FOOTAGE – 10,354 METRES
<p>Premium’s exploration approach led to a 1.4 Km increase in the strike length of the mineralized footprint between the North, Main and South zones along the Friday Fault, and increased the Lower Block strike length to 500 metres.</p> <p>Phase Three focused on the development of the Lower Block of the Friday-Petsite deposit; and additional exploration for zones of gold mineralization along the OSZ. Geophysics, soil geochemistry and drilling indicate that the North, Main and South Zones which comprise the current block model are potentially contiguous.</p>		

h) Monday Zone – Idaho, USA

The Monday Zone was discovered in December 2010 and was the first time Premium utilized its’ exploration strategy outside of the Friday Zone. Drilling encountered the “Monday Fault”, a west-bounding fault of the OSZ parallel to the east-bounding “Friday Fault”.

Premium’s geologists believe that the Monday Fault has the potential to host another gold zone 300m west of, and parallel to, the existing gold resources of the Friday-Petsite deposit.

Two holes (PFR2010-19 & PFR2010-22) were drilled 900 metres apart along a structural identified by geophysics demonstrating potential continuity. Gold-in-soil sampling will be used to locate the Monday Zone at surface with future drilling being targeted along strike to the north and south during the Phase Four Drill Program. Structurally controlled mineralization along the parallel Monday and Friday faults correlate with airborne geophysical and gold-in-soil anomalies, which demonstrates the large district potential of the OSZ over 30 Km of strike.

i) Aurum – Idaho, USA

The Aurum claims are situated along the OSZ between the Deadwood and Friday Zones. The Aurum claims form a part of the Deadwood Zone.

j) Project X Zone – Idaho, USA

Project X is located south of the Monday and Friday Zones and is situated at the southern-most end of the IGP. Airborne geophysics revealed potentially mineralized structures which will be explored in the Phase Four Program.

k) Dixie - Idaho, USA

The Dixie property is located south of the X Zone of the IGP. It may be the southerly extension of the OSZ however there is insufficient information to make this assumption. 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.

4) Selected Annual Information

Fiscal Year Ended	December 2011 IFRS	December 2010 IFRS	December 2009 GAAP	December 2008 GAAP
Total Revenues	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Net Loss from Continuing Operations	\$ 8,339,896	\$ 6,734,028	\$ 2,445,400	\$ 4,045,756
Net Loss	\$ 8,339,896	\$ 6,734,000	\$ 2,503,525	\$ 4,045,756
Basic and Diluted Loss Per Share	\$ (0.07)	\$ (0.06)	\$ (0.05)	\$ (0.11)
Total Assets	\$ 5,276,817	\$ 8,463,179	\$ 1,562,271	\$ 817,471
Long-Term Financial Liabilities	\$ 143,940	\$ 171,231	\$ Nil	\$ Nil
Cash Dividends Declared	\$ Nil	\$ Nil	\$ Nil	\$ Nil

5) Results of Operations

The comprehensive loss for the year ended 31 December 2011 was \$8,339,896, which compares to a comprehensive loss of \$6,734,028 during the same period in 2010. The main fluctuations in costs are as follows:

	12 months 2011	12 months 2010
Resource property expense (Rounded '000)		
	\$ 6,045,000	4,347,000
Variance increase	1,698,000	

Resource property expenditures have increased significantly over the comparative period. This is a direct result of increased exploration and drilling activity on the Friday-Petsite property. The Company completed financing late in the second quarter of 2010 and has aggressively been pursuing the planned drilling program. This variance is as expected by management and consistent with all published activities.

	12 months 2011	12 months 2010
Shareholder relations (Rounded '000)		
	\$ 556,000	409,000
Variance increase	147,000	

Shareholder relations expense has increased in connection with the Company's exploration and drilling activity resulting in a greater need for public disclosure and communication.

	12 months 2011	12 months 2010
Travel (Rounded '000)		
	\$ 441,000	287,000
Variance increase	154,000	

Travel expenses have increased over the comparative period as a result of the growing exploration activity calling for key management to travel on location more frequently than in the past. This variance is as expected by management and is consistent with current operations.

	12 months 2011	12 months 2010
Management fees (Rounded '000)		
	\$ 418,000	544,000
Variance increase	(126,000)	

Management fees have decreased compared to the prior period as a result of the issuance of bonuses to management for past performance in 2010. The 2011 year also experienced a restructuring of management, thus reducing overall expenditures.

	12 months 2011	12 months 2010
Office and general (Rounded '000)		
	\$ 264,000	147,000
Variance increase	117,000	

Office and miscellaneous expenses have increased in response to the growing exploration activity to fill the need of greater support from head office. This variance is as expected by management and is consistent with current operations.

	12 months 2011	12 months 2010
Stock-based compensation (Rounded '000)		
	236,000	510,000
Variance increase	(274,000)	

The variance in the amounts for stock-based compensation is a direct result the Company granting fewer options and the timing differences in the vesting of said options that have been granted in connection with the Company's approved stock-option plan.

6) Summary of Quarterly Results

Financial data for the last eight quarters:

Three Months Ended	Dec-11	Sep-11	Jun-11	Mar-11	Dec-10	Sep-10	Jun-10	Mar-10
	\$	\$	\$	\$	\$	\$	\$	\$
Total Revenues	-	-	-	-	-	-	-	-
Loss from continuing operations	1,276,390	3,655,569	2,510,447	897,490	2,264,545	2,210,960	1,365,198	491,917
Income (loss) for the period	1,276,390	3,655,569	2,510,447	897,490	2,264,545	2,210,960	1,365,198	491,917
Loss per share (Basic and diluted)	(0.01)	(0.03)	(0.02)	(0.01)	(0.06)	(0.02)	(0.03)	(0.01)
Total assets	5,276,817	6,743,379	9,912,484	8,433,651	8,466,263	10,520,045	1,503,735	1,579,184
Working capital	1,029,169	2,465,596	6,112,102	4,733,887	4,868,783	7,048,625	802,728	1,019,378

The variance between December 2011 and September 2011 is primarily a result of seasonality changes resulting in reduced drilling and exploration.

The variance between September 2011 and June 2011 is a result of the Company aggressively pursuing the planned drill program.

The variance between June 2011 and March 2011 is a result of the extreme weather conditions which slowed the progress of the drill program in first quarter of fiscal 2011.

The variance between March 2011 and December 2010 is primarily a result of extreme weather conditions which slowed the progress of the drill program.

The variance between September 2010 and June 2010 and the preceding arose principally because of increased exploration activity after the completion of the June financing, which allowed the Company to put extra drills on the site.

The quarter ended June 2010 was higher than the preceding quarter because of roll-out of the drill program in spring.

7) Outstanding Shares

As at 31 December 2011, the Company had 131,105,519 common shares issued and outstanding versus 114,694,519 common shares issued and outstanding at 31 December 2010. The fully diluted amount of 157,582,019 represents options of 5,807,500 and warrants of 20,669,000.

As at the date of this report, the Company had 131,105,519 common shares issued and outstanding resulting from the exercise of zero options and warrants. Subsequent to the year end and up to the date of this report all of the outstanding warrants expired, and the Company issued 150,000 options. The fully diluted amount of 137,063,019 represents options of 5,957,500 and warrants of Nil.

8) 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 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 on-going exploration expenditures.

Fair Value – As at 31 December 2011 and 2010, 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 quarter.

9) Capital Resources and Commitments

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

The CEO, 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 \$10,000. This contract may be cancelled upon the Company providing six months advance notice.

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

10) Share Capital

The table below presents the Company's common share data as of 31 December 2011.

Number of Common shares issued and outstanding	131,105,519
------------------------------------------------	-------------

11) Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as at 31 December 2011 and as at the date hereof.

12) Related Party Transactions

Related party transactions and balances not disclosed elsewhere in the financial statements are as follows:

Related Party Disclosure

Name and Principal Position	Period ⁽ⁱ⁾	Remuneration or fees ⁽ⁱⁱ⁾	Share-based awards
CEO and President - Del Steiner – management fees	2011	\$ 124,853	\$ 18,700
	2010	211,164	49,600
Clearline Chartered Accountants ⁽ⁱⁱⁱ⁾ – management fees	2011	90,457	12,900
	2010	94,400	33,100
Clearline Chartered Accountants ⁽ⁱⁱⁱ⁾ – professional fees	2011	18,917	-
	2010	8,965	-
CFO – Grant T. Smith	2011	-	-
	2010	40,000	-
Robert Komarechka – Director	2011	-	11,700
	2010	-	29,200
Colin Jones – Director	2011	-	11,700
	2010	-	28,400
Patrick Sam Yue – Director ^(iv)	2011	-	11,700
	2010	-	28,400
Dr. Guojian Xu - Director	2011	-	11,700
	2010	-	28,400
Ken Booth – Director ^(v)	2011	-	5,300
	2010	-	-
Ellie Steiner ^(vi)	2011	29,727	-
	2010	-	-

i) For the years ended 31 December 2011 and 2010

ii) Amounts disclosed were paid or accrued to the related party

iii) A company of which the CFO, Grant T. Smith, is a director

iv) Resigned from the Board of Directors on 28 November 2011

v) Appointed to the Board of Directors on 28 November 2011

vi) An individual related to an officer of the Company

At 31 December 2011, management fees of \$35,900 (2010 – \$70,000) and professional fees of \$2,956 (2010 - \$Nil), payable to related parties, were included in accounts payable.

These transactions were in the normal course of operations and are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

13) Financial Instruments

a) Fair value

The carrying values of receivables and accounts payable and accrued liabilities approximate their fair values due to their short term to maturity. Cash is measured on the balance sheet at Level 1 of the fair value hierarchy.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

b) Currency risk

All of the Company's Canadian cash is held in interest bearing accounts at major banks and such balances earn interest at market rates. The Company also maintains cash in the US\$ and the Mexican Peso. The cash balances and payables that are denominated in foreign currencies are subject to currency risk due to fluctuations in the exchange rate between the currencies. To manage this risk the Company maintains only the minimum amount of foreign cash required to fund its ongoing exploration expenditures. At 31 December 2011 the Company held currency totalling Cdn \$1,258,000; US \$170,000; and Pesos \$Nil. Accounts payable are settled in a timely manner. It is management's opinion that the Company is not exposed to significant currency risk. The Company does not use derivative instruments to reduce upward and downward risk associated with foreign currency transactions.

c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts. The Company's bank accounts are held with major banks in Canada accordingly the Company believes it not exposed to significant credit risk.

d) Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company has cash available to meet all current obligations.

e) Market risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. Market risk is comprised of commodity price risk and interest rate risk. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns.

f) Interest rate risk

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to interest rate.

g) Price risk

Price risk is the risk that the value of a security will decline in the future. The Company is not exposed to price risk.

14) 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 2011 Consolidated Financial Statements provide a breakdown of the

general and administrative expenses for the period under review and an analysis of the capitalized and expensed exploration and development costs incurred on its mineral properties.

15) 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.

16) Management

Premium is 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.

17) 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.

18) 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.

In addition to the foregoing, the reader should note that: (a) the Company is a "venture issuer" under securities law and is therefore not required to certify the design and evaluation of the Company's DC&P and internal controls over financial reporting ("ICFR") and has not completed such an evaluation; and (b) inherent limitations on the ability of the certifying officers to design and implement on a cost-effective basis DC&P and ICFR for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

19) Approval

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

20) A cautionary tale

This document contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Corporation, its subsidiaries and its projects, the future supply, demand, inventory, production and price of minerals, the estimation of reserves and resources, the realization of reserve estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of pending litigation and regulatory matters.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of resources; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the resource industry; political instability, insurrection or war; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Respectfully submitted

On behalf of the Board of Directors

"Delbert W. Steiner"

Delbert W. Steiner

President & CEO