

PALLADON VENTURES LTD.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FIRST QUARTER ENDED MAY 31, 2006 AND MAY 31, 2005

PALLADON VENTURES LTD.

Notice of No Auditor Review of Interim Consolidated Financial Statements

Under *National Instrument 51-102, Part 4, subsection 4.3 (3)(a)*, if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the company have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

"George S. Young"
Chief Executive Officer

August 8, 2006

PALLADON VENTURES LTD.
INTERIM CONSOLIDATED BALANCE SHEETS
MAY 31, 2006 AND FEBRUARY 28, 2006

	<u>ASSETS</u>	<u>May 31, 2006</u>	<u>Feb. 28, 2006</u>
Current			
Cash – Note 9		\$ 573,748	\$ 1,676,346
GST recoverable		16,852	11,283
Prepaid expenses		<u>30,034</u>	<u>24,796</u>
		620,634	1,712,425
Equipment – Note 3		50,545	31,113
Reclamation Bond – Note 4		715,975	745,940
Mineral properties – Notes 4,5,6 and Schedule 1		<u>33,726,138</u>	<u>29,049,254</u>
		<u>\$ 35,113,292</u>	<u>\$ 31,538,732</u>

LIABILITIES

Current			
Accounts payable and accrued liabilities – Note 8		\$ 686,205	\$ 1,878,503
Due to related party – Note 8		<u>1,668,495</u>	<u>1,603,418</u>
		2,354,700	3,481,921
Loan payable – Note 6		14,044,125	14,631,900
Non-controlling interest – Note 5		<u>5,039,766</u>	<u>6,309,300</u>
		<u>21,438,591</u>	<u>24,423,121</u>

SHAREHOLDERS' EQUITY

Share capital – Note 7	24,471,913	20,208,913
Contributed surplus – Note 7	1,596,971	1,173,071
Deficit – Note 2	<u>(12,394,183)</u>	<u>(14,266,373)</u>
	<u>13,674,701</u>	<u>7,115,611</u>
	<u>\$ 35,113,292</u>	<u>\$ 31,538,732</u>

Nature and Continuance of Operations – Note 1
 Commitments – Notes 4, 5, 6
 Subsequent Events – Note 10

APPROVED BY THE DIRECTORS:

“George S. Young” Director “Allan Williams” Director

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE THREE MONTHS ENDED MAY 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
General and Administrative Expenses		
Amortization	\$ 5,443	\$ 3,139
Bank charges	132	709
Interest	335,178	27,775
Investor relations	18,686	48,201
Management fees	264,820	120,514
Office and administration	84,041	53,984
Professional fees	27,734	110,012
Rent	45,188	22,054
Shareholder communications	34,996	44,658
Stock-based compensation	176,900	175,000
Telephone	5,468	9,038
Transfer agent and filing fees	21,018	15,561
Travel and promotion		<u>93,438</u>
	<u>103,718</u>	
Loss before other	(1,123,083)	(724,083)
Other:		
Interest income	6,603	89,676
Gain (loss) on foreign exchange		<u>(178,431)</u>
	<u>1,719,136</u>	
	1,725,739	(88,755)
Net income (loss) for the period before non-controlling interest	602,656	(812,838)
Non-controlling interest	<u>1,269,534</u>	=
Net income (loss) for the period	1,872,190	(812,838)
Deficit, beginning of the period	<u>(14,266,373)</u>	<u>(9,292,974)</u>
Deficit, end of the period	<u>\$ (12,394,183)</u>	<u>\$ (10,105,812)</u>
Basic and fully diluted income (loss) per share	<u>\$ 0.05</u>	<u>\$ (0.37)</u>
Weighted average number of shares outstanding	<u>38,607,544</u>	<u>27,182,703</u>

SEE ACCOMPANYING NOTES

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MAY 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Operating Activities		
Net income (loss) for the period	\$ 1,872,190	\$ (812,838)
Items not involving cash:		
Amortization	5,443	3,139
Deferred charges	-	20,149
Shares issued for interest expense	-	35,736
Stock-based compensation	176,900	175,000
Non-controlling interest	(1,269,534)	-
Unrealized foreign exchange loss (gain)		<u>241,960</u>
	<u>(557,810)</u>	
	227,189	(336,854)
Changes in non-cash working capital items:		
GST recoverable	(5,569)	(4,014)
Prepaid expenses	(5,238)	3,262
Accounts payable and accrued liabilities		<u>156,588</u>
	<u>(1,192,298)</u>	
Cash used in operating activities		<u>(181,018)</u>
	<u>(975,916)</u>	
Investing Activities		
Acquisition of equipment	(24,875)	-
Mineral property costs	(4,676,884)	(18,761,782)
Reclamation bond	-	(803,920)
Loan receivable	-	<u>1,715,687</u>
Cash used in investing activities		<u>(17,850,015)</u>
	<u>(4,701,759)</u>	
Financing Activities		
Advances from (to) related parties	65,077	(3,535)
Bridge loan payable	-	12,739,040
Loan payable – Western Utah Copper Company	-	4,328,800
Issuance of shares for cash, net of share issue costs	<u>4,510,000</u>	<u>470,146</u>
Cash provided by financing activities	<u>4,575,077</u>	<u>17,534,451</u>
Decrease in cash during the period	(1,102,598)	(496,582)
Cash, beginning of the period	<u>1,676,346</u>	<u>2,166,787</u>
Cash, end of the period	<u>\$ 573,748</u>	<u>\$ 1,670,205</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		

SEE ACCOMPANYING NOTES

Interest	<u>\$ 331,437</u>	<u>\$ 342,034</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash Transactions – Note 11		

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
SCHEDULE OF MINERAL PROPERTIES
FOR THE THREE MONTHS ENDED MAY 31, 2006

	Argentina						USA		May 31, 2005 Total		
	Gran Bajo	Laguna Guadalosa	Tres Hermanas	Rio Deseado	Taca Taca	La Sarita	Other	Utah		Genesis Gold	Iron Springs
Balance beginning	\$ 74,460	\$ 313,661	\$ 492,452	\$ 579,900	\$ 939,339	\$ 127,500	\$ -	\$ 5,577,474	\$ 927,358	\$ 17,258,635	\$ 26,290,779
Acquisition costs	-	-	-	-	-	-	-	-	-	-	-
Shares issued	-	-	57,108	-	-	-	-	1,591,378	-	-	1,648,486
Cash paid (recovered)	-	-	-	-	-	-	-	-	-	-	-
	74,460	313,661	549,560	579,900	939,339	127,500	-	7,600,776	927,358	19,585,186	27,939,265
Exploration expenditures (recovered)	-	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	-	-	11,541	11,541
Geological consulting	-	-	4,269	-	7,553	-	12,857	-	9,204	14,708	48,951
Field costs	-	-	2,823	-	6,262	-	563	29,329	25,006	-	63,983
Miscellaneous	14	-	171	-	-	-	6,067	-	-	839	7,090
Reclamation bond	-	-	-	-	-	-	-	-	14,283	-	14,283
Salaries and wages	-	-	4,689	-	18	-	6,954	-	-	-	11,661
Taxes	-	-	11	-	3,114	-	1,860	-	-	-	4,985
Travel	-	-	1,703	-	-	-	6,892	-	-	-	8,595
	14	-	14,027	-	16,947	-	35,193	29,329	48,492	27,089	171,089
Plant and equipment under construction	-	-	-	-	-	-	-	431,924	-	5,183,859	5,615,783
Total	\$ 74,474	\$ 313,661	\$ 563,587	\$ 579,900	\$ 956,286	\$ 127,500	\$ 35,193	\$ 7,630,105	\$ 975,850	\$ 22,469,582	\$ 33,726,138

PALLADON VENTURES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND FEBRUARY 28, 2006

Note 1 Nature and Continuance of Operations

Palladon Ventures Ltd. (the “Company”) is a public company incorporated on August 25, 1980 under the Company Act of British Columbia and is in the business of acquiring, exploring and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. As at May 31, 2006, the Company had interests in properties located in Argentina and the U.S.A. The Company is listed on the TSX Venture Exchange (PLL) (the “Exchange”) and the Frankfurt Exchange. (PVI)

The Company is in the development stage and is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and deferred exploration costs is dependent upon the discovery of economically recoverable reserves and confirmation of the Company’s interest in the underlying mineral properties, the ability of the Company to obtain necessary financing to complete the development of the properties and upon future profitable production or proceeds from the disposition thereof.

The financial statements have been prepared using Canadian generally accepted accounting principles applicable for a going concern which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. As at May 31, 2006, the Company has not yet achieved profitable operations. Its ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

Note 2 Significant Accounting Policies

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements. These unaudited consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements. Therefore readers are advised to refer to the company's annual audited financial statements for the year ended February 28, 2006 for additional information.

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates that have been made using careful judgement. Actual results may differ from these estimates.

Note 2 Significant Accounting Policies (continued)

PALLADON VENTURES LTD.
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND FEBRUARY 28, 2006 – PAGE 2

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Note 3 Equipment

	<u>May 31, 2006</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Office furniture and equipment	\$ 31,741	\$ 5,520	\$ 26,221
Vehicle	<u>44,194</u>	<u>19,870</u>	<u>24,324</u>
	<u>\$ 75,935</u>	<u>\$ 25,390</u>	<u>\$ 50,545</u>

	<u>February 28, 2006</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Computer equipment	\$ 6,866	\$ 2,049	\$ 4,817
Vehicle	<u>44,194</u>	<u>17,898</u>	<u>26,296</u>
	<u>\$ 51,060</u>	<u>\$ 19,947</u>	<u>\$ 31,113</u>

Note 4 Reclamation Bond

The Company is obligated to provide an amount of US\$1,300,000 as security for future reclamation work. The Company has deposited 50% of the amount (\$715,975 (US\$650,000)) with a government agency. The Company has obtained an insurance policy to fund the balance in the event that a claim is made.

Note 5 Mineral Properties

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing. The properties in which the Company has committed to earn an interest are located in Argentina and the United States and the Company is relying on title opinion by legal counsel who is basing such opinions on the laws of Argentina and the United States, respectively.

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Argentina

- a) By agreement dated October 1, 2002, and amended April 11, 2003, the Company entered into an option agreement with Deseado LLC (“Deseado”) to earn up to a 51% interest in approximately 100,000 hectares of mineral properties located in the Santa Cruz, Rio Negro and Chubut provinces of Argentina. Deseado has a director in common with the Company.

As consideration for the option the Company issued 600,000 shares at \$0.30 per share during the year ended February 29, 2004, 800,000 common shares during the quarter ended May 31, 2005 and is required to issue up to 400,000 shares as expenditures are completed. The Company also issued 100,000 shares at \$0.30 per share during the year ended February 29, 2004 for finder’s fees. The properties are divided into groups with exploration expenditure requirements as follows:

Laguna Guadalosa Property Group

- US\$30,000 on or before March 31, 2003 (paid);
- An additional US\$270,000 on or before March 31, 2004 (paid)

All other properties (Gran Bajo, Tres Hermanas, Rio Desado and Other)

- US\$40,000 on or before April 30, 2003 (paid)
- An additional US\$160,000 on or before March 31, 2004 (paid)

PALLADON VENTURES LTD.
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 MAY 31, 2006 AND FEBRUARY 28, 2006 – PAGE 4

Note 5 Mineral Properties – (cont'd)

- b) By agreement dated March 19, 2004, the Company entered into an option agreement to acquire a 100% interest in approximately 830 hectares known as the Rodino property located in Argentina, adjacent to the Tres Hermanas property. Consideration payable is US\$500,000 payable over four years in six month intervals as follows:

On March 19, 2004	US\$ 40,000	(paid)
September 19, 2004	30,000	(paid)
March 19, 2005	40,000	(paid)
September 19, 2005	40,000	(paid)
March 19, 2006	50,000	(paid)
September 19, 2006	50,000	
March 19, 2007	60,000	
September 19, 2007	80,000	
March 19, 2008	<u>110,000</u>	
Total	<u>US\$ 500,000</u>	

This agreement is subject to regulatory approval.

By agreement dated May 31, 2004, the Company entered into an option agreement to acquire a 100% interest in approximately 2,000 hectares known as the Taca Taca Alta properties located in Salta province, Argentina. Consideration payable is US\$5,000,000 payable from the agreement date as follows:

Five days after signing	US\$ 100,000	(paid)
November 30, 2004	100,000	(paid)
July 10, 2005	30,000	
August 1, 2005	700,000	
November 30, 2005	150,000	
May 31, 2006	200,000	
November 30, 2006	250,000	
May 31, 2007	300,000	
November 30, 2007	350,000	
May 31, 2008	500,000	
May 31, 2009	<u>2,950,000</u>	
Total	<u>US\$5,000,000</u>	

The agreement is subject to regulatory approval. The Company has not made any payments subsequent to November 30, 2004 and is currently negotiating with the optionor to extend the payment terms.

PALLADON VENTURES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND FEBRUARY 28, 2006 – PAGE 5

Note 5 Mineral Properties – (cont'd)

Utah, USA

- a) The Company has entered into an option agreement dated November 20, 2003 to acquire a 50% interest in approximately 40,000 acres of mineral rights located in Beaver County, Utah. As consideration the Company will update and finalize a feasibility study and expend up to US\$4,000,000 over five years with a minimum of US\$800,000 (paid) to be spent in the first year. Any property in the new exploration areas in which a feasibility study has been completed, the Company shall have the right to a 65% interest.
- b) On May 7, 2004, the Company entered into an option agreement for the right to acquire a 100% interest in five mineral exploration properties covering 5,480 acres in Utah and Nevada in consideration for 250,000 common shares (issued) and a further 1,300,000 shares in stages on or before the third anniversary (1,150,000 issued to date). The properties are subject to a 3% net smelter return royalty.

In May 2006, the Company granted an option to another public company having a director in common to acquire a 75% interest in the properties by issuing 450,000 common shares to the Company and 850,000 shares to the underlying optionor within five days of regulatory approval. The optionee must also incur exploration expenditures of US\$5,000,000 over five years of which US\$1,200,000 must be completed during calendar 2006.

- c) During fiscal 2006 the Company completed the purchase of the Rex, Mountain Lion and Comstock Iron properties (the Iron Springs properties) with the proceeds of an interim loan from Luxor Capital Group, LC. ("Luxor"). The purchase price for the property was US\$10.0 million, of which \$50,000 was paid on signing, with \$1.3 million as a credit at closing for the amount of the reclamation bond obligation to be assumed by the Company (Note 5), and \$8.65 million paid in cash at closing. Prior to entering into the purchase agreement, the Company and Western Utah Copper Company (WUCC) entered into a Joint Venture Agreement, which provided that the Company shall have a 65 % interest in the property, and WUCC shall have a 35 % interest. Concurrently with the acquisition, the parties negotiated for the buyout of WUCC's interest for US\$3.5 million plus the forgiveness of approximately US\$1,500,000 in loans and accrued interest receivable (Note 3) previously made by the Company to WUCC. The Iron Springs properties are held by the Company's subsidiary, Palladon Iron Corporation. During the year ended February 28, 2006, in connection with the refinancing of the interim loan, the Company sold 50% of its interest in Palladon Iron Corporation, at cost, to Luxor for US\$3,000,000.

PALLADON VENTURES LTD.
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 MAY 31, 2006 AND FEBRUARY 28, 2006 – PAGE 6

Note 6 Loan Payable

Loan payable to Luxor of US\$12,750,000 with interest at 9.25% per annum due September 24, 2010. The loan is secured by a promissory note, a general security agreement, the shares of PIC and a mortgage on the Murdock Railway property (Note 3). In connection with the financing, the Company granted the lender share purchase warrants which entitle Luxor to acquire up to 2,357,137 common shares at \$0.62 per share until September 23, 2007.

Note 7 Share Capital

Authorized:
 Unlimited common shares without par value

Issued:

		<u>Number of Shares</u>	<u>Amount</u>
Balance, February 28, 2005		25,459,527	\$ 16,180,041
For cash:			
Pursuant to exercise of warrants	- at \$0.36	328,815	118,373
	- at \$0.50	1,101,280	550,640
	- at \$0.80	723,666	578,933
	- at \$0.85	152,986	130,038
Pursuant to conversion of convertible debentures	- at \$0.69	1,192,148	822,582
Less: share issue costs		-	(20,723)
Pursuant to exercise of options	- at \$0.45	200,000	90,000
	- at \$0.50	290,000	145,000
	- at \$0.70	250,000	175,000
	- at \$0.75	100,000	75,000
	- at \$0.80	50,000	40,000
Pursuant to exercise of agent's options	- at \$0.75	28,562	21,422
	- at \$0.85	125	106
Transfer from contributed surplus on exercise of options		-	187,501
Pursuant to mineral property agreements	- at \$0.87	250,000	217,500
	- at \$0.55	800,000	440,000
	- at \$0.40	900,000	360,000
	- at \$0.65	<u>150,000</u>	<u>97,500</u>
Balance, February 28, 2006		<u>31,977,109</u>	<u>20,208,913</u>
For cash:			
Private placement	- at \$0.50	10,000,000	5,000,000
Less: share issue costs, cash		-	(490,000)
agent's options		<u>-</u>	<u>(247,000)</u>
Balance, May 31, 2006		<u>41,977,109</u>	<u>\$ 24,471,913</u>

PALLADON VENTURES LTD.
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND FEBRUARY 28, 2006 – PAGE 7

Note 7 Share Capital – (cont'd)

Escrow shares:

As at May 31, 2006, 37,500 (February 28, 2006: 37,500) common shares are held in escrow subject to direction for their release by regulatory authorities.

Commitments:

Stock-based compensation

The Company may grant share purchase options to directors, officers or employees to acquire shares of the Company. Unless otherwise noted, the share purchase options vest when granted. Share purchase option activities for the three months ended May 31, 2006 and the year ended February 28, 2006 are summarized as follows:

	Period ended May 31, 2006		Year ended February 29, 2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	1,975,000	\$0.66	1,590,000	\$0.55
Granted	290,000	\$0.80	1,135,000	\$0.75
Agent's options granted	1,000,000	\$0.50		
Exercised	-	-	(500,000)	-
Expired	-	-	<u>(250,000)</u>	-
Outstanding, end of period	<u>3,265,000</u>	\$0.62	<u>1,975,000</u>	\$0.66
Exercisable, end of period	<u>3,265,000</u>		<u>1,975,000</u>	

PALLADON VENTURES LTD.
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND FEBRUARY 28, 2006 – PAGE 8

Note 7 Share Capital – (cont'd)

Commitments: – (cont'd)

Stock-based compensation – (cont'd)

As at May 31, 2006, there were 3,265,000 employee, director and agent's share purchase options outstanding. Each option entitles the holder thereof the right to purchase one common share as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,000,000	\$0.50	March 31, 2008
700,000	\$0.45	September 9, 2008
150,000	\$0.80	November 26, 2008
140,000	\$0.50	October 22, 2009
350,000	\$0.70	October 22, 2009
350,000	\$0.75	April 21, 2010
625,000	\$0.75	August 29, 2010
160,000	\$0.75	November 10, 2010
<u>290,000</u>	\$0.80	April 18, 2011
<u>3,265,000</u>		

Share Purchase Warrants

As at May 31, 2006, the Company had 12,795,732 share purchase warrants outstanding. Each warrant entitles the holder to purchase one common share as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
283,867	\$0.86	March 15, 2007
40,925	\$0.86	July 21, 2007
40,949	\$0.86	July 22, 2007
106,838	\$0.86	August 8, 2007
62,389	\$0.86	October 6, 2007
61,107	\$0.86	October 19, 2007
2,199,657	\$0.62	September 23, 2007
<u>10,000,000</u>	\$0.75	March 31, 2008
<u>12,795,732</u>		

PALLADON VENTURES LTD.
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND FEBRUARY 28, 2006 – PAGE 9

Note 7 Share Capital – (cont'd)

Commitments: – (cont'd)

Stock-based compensation – (cont'd)

During the period ended May 31, 2006, the Company recognized charges associated with share purchase options granted. The fair value of share purchase options granted for directors, officers and employees was \$176,900 (2006: \$175,000). The fair value of share purchase options granted to the Agent for the brokered private placement was \$247,000. The fair value was determined using the Black-Scholes model with the following assumptions:

May 31,	<u>2006</u>	<u>2005</u>
Expected dividend yield	0%	0%
Expected stock price volatility	89% to 100%	69 to 100%
Risk-free interest rate	3.99 to 4.26%	3.42 to 3.86 %
Expected life in years	2 – 5 years	2 – 5 years

Contributed Surplus

	<u>May 31,</u> <u>2006</u>	<u>February 28,</u> <u>2006</u>
Balance, beginning of period	\$ 1,173,071	\$ 542,492
Fair value of share purchase options granted	423,900	550,700
Fair value of share purchase warrants granted on debenture conversion	-	196,705
Fair value of share purchase warrants granted with loan payable	-	895,712
Less: value transferred on exercise of options	-	(187,501)
Less: deferred finance charge	-	(825,037)
Balance, end of period	<u>\$ 1,596,971</u>	<u>\$ 1,173,071</u>

PALLADON VENTURES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006 AND FEBRUARY 28, 2006 – PAGE 10

Note 8 Related Party Transactions

The Company incurred the following transactions with related parties consisting of current and/or former directors of the Company or private companies controlled by them:

	Three Months Ended	
	May 31, <u>2006</u>	May 31, <u>2005</u>
Management fees	\$ 85,210	\$ 120,514
Rent	<u>10,231</u>	<u>12,323</u>
Total	<u>\$ 95,411</u>	<u>\$ 132,837</u>

The charges were measured by the exchange amount which is the amount agreed upon by the transacting parties.

Amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

Note 9 Financial Instruments

a) Credit risk:

The Company estimates, on a continuing basis, the probable losses, and provides a provision for losses based on the estimated realizable value.

b) Foreign currency risk:

The Company is exposed to fluctuations in foreign currencies through its operations in the United States and Argentina. The Company monitors this exposure, but has no hedge positions. As at May 31, 2006, cash totalling \$354,474 (February 28, 2006: \$1,476,245) was held in US dollars and \$3,262 in Argentine Pesos (February 28, 2006: \$791) were held in US dollars.

Note 10 Subsequent Events

Subsequent to May 31, 2006:

- a) The Company issued 157,480 common shares at \$0.62 per share for total proceeds of \$97,638 pursuant to the exercise of warrants.
- b) The Company closed the first tranche of a non-brokered private placement and issued 1,400,000 units at \$0.55 per unit for cash proceeds of \$770,000. Each unit consists of one common share and one half of a non-transferable warrant to acquire an additional common share for \$0.70 for a period of 24 months.