

PALLADON VENTURES LTD.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED AUGUST 31, 2006

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.

“Donald G. Foot, Jr.”
Chief Executive Officer

October 31, 2006

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

	<u>ASSETS</u>	<u>August 31, 2006</u>	<u>Feb. 28, 2006</u>
Current			
Cash – Note 9		\$ 502,136	\$ 1,676,346
GST recoverable		35,737	11,283
Prepaid expenses		-	24,796
		<hr/>	<hr/>
		537,873	1,712,425
Equipment – Note 3		44,085	31,113
Reclamation Bond – Note 4		719,290	745,940
Mineral properties – Notes 4,5,6 and Schedule 1		35,643,461	29,049,254
		<hr/>	<hr/>
		\$ 36,944,710	\$ 31,538,732
		<hr/>	<hr/>
	<u>LIABILITIES</u>		
Current			
Accounts payable and accrued liabilities – Note 8		\$ 472,672	\$ 1,878,503
Due to related party – Note 8		1,828,527	1,603,418
		<hr/>	<hr/>
		2,301,199	3,481,921
Loan payable – Note 6		14,109,150	14,631,900
Non-controlling interest – Note 5		5,039,766	6,309,300
		<hr/>	<hr/>
		21,450,115	24,423,121
		<hr/>	<hr/>
	<u>SHAREHOLDERS' EQUITY</u>		
Share capital – Note 7		25,450,029	20,208,913
Share subscriptions received		1,931,279	-
Contributed surplus – Note 7		1,351,256	1,173,071
Deficit – Note 2		(13,237,969)	(14,266,373)
		<hr/>	<hr/>
		15,494,595	7,115,611
		<hr/>	<hr/>
		\$ 36,944,710	\$ 31,538,732
		<hr/>	<hr/>
Nature and Continuance of Operations – Note 1			
Commitments – Notes 4, 5, 6			
Subsequent Events – Note 10			

SEE ACCOMPANYING NOTES

APPROVED BY THE DIRECTORS:

_____ Director

_____ Director

SEE ACCOMPANYING NOTES

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

	Three Months Ended August 31		Six Months Ended August 31	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Sales	\$ 13,167	\$ -	\$ 13,167	\$ -
Cost sales, delivery	11,097	-	11,097	-
Gross margin	<u>2,070</u>	<u>-</u>	<u>2,070</u>	<u>-</u>
General and Administrative Expenses				
Amortization	6,460	3,140	11,903	6,279
Bank charges	923	1,647	1,055	2,356
Interest	245,609	7,673	580,787	35,448
Investor and international relations	22,115	45,595	40,801	93,796
Management and consulting fees	367,197	381,119	632,017	501,633
Office and administration	141,731	130,846	225,533	184,830
Professional fees	164,427	69,827	192,161	179,839
Rent	55,150	14,881	100,338	36,935
Shareholder communications	8,304	34,278	43,300	78,936
Stock-based compensation	(176,900)	-	-	175,000
Telephone	10,556	9,150	16,024	18,188
Transfer agent and filing fees	29,643	33,947	50,661	49,508
Travel and promotion	65,028	91,148	168,746	184,586
	<u>(940,244)</u>	<u>(823,251)</u>	<u>(2,063,327)</u>	<u>1,547,334</u>
Loss before other items	(938,175)	(823,251)	(2,061,258)	(1,547,334)
Other items:				
Interest income	1,099	2,233	7,702	91,909
Gain (loss) on foreign exchange	93,289	1,063,905	1,812,425	885,474
	<u>94,388</u>	<u>1,066,138</u>	<u>1,820,127</u>	<u>977,383</u>
Net income (loss) for the period before non-controlling interest	<u>(843,786)</u>	<u>242,887</u>	<u>(241,130)</u>	<u>(569,951)</u>
Non-controlling interest	-	-	1,269,534	-
Net income (loss) for the period	(843,786)	242,887	1,028,404	(569,951)
Deficit, beginning of the period	<u>(12,394,183)</u>	<u>(10,105,812)</u>	<u>(14,266,373)</u>	<u>(9,292,974)</u>
Deficit, end of the period	<u>\$ (13,237,969)</u>	<u>\$ (9,862,925)</u>	<u>\$ (13,237,969)</u>	<u>\$ (9,862,925)</u>
Basic and fully diluted income (loss) per share	\$ (0.02)	\$ 0.01	\$ 0.03	\$ (0.02)
Weighted average number of shares outstanding	<u>42,775,184</u>	<u>36,524,234</u>	<u>40,691,364</u>	<u>35,424,860</u>

SEE ACCOMPANYING NOTES

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

	Three Months Ended August 31		Six Months Ended August 31	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Operating Activities				
Net income (loss) for the period	\$ (843,786)	\$ 242,887	\$ 1,028,404	\$ (569,951)
Items not involving cash:				
Amortization	6,460	3,140	11,903	6,279
Deferred charges	-	1,594	-	21,743
Shares issued for interest expense	-	31,119	-	66,855
Stock-based compensation	(176,900)	-	-	175,000
Non-controlling interest	-	-	(1,269,534)	-
Unrealized foreign exchange loss (gain)	61,710	(1,016,495)	(496,100)	(774,535)
	<u>(952,516)</u>	<u>(737,755)</u>	<u>(725,327)</u>	<u>(1,074,609)</u>
Changes in non-cash working capital items:				
GST recoverable	(18,885)	(18,816)	(24,454)	(22,830)
Prepaid expenses	30,034	4,537	24,796	7,799
Accounts payable and accrued liabilities	(213,534)	1,307,213	(1,405,832)	1,463,801
Cash used in operating activities	<u>(1,154,901)</u>	<u>551,179</u>	<u>(2,130,817)</u>	<u>374,161</u>
Investing Activities				
Acquisition of equipment	-	-	(24,875)	-
Mineral property costs	(1,917,323)	(2,681,250)	(6,594,207)	(21,443,032)
Reclamation bond	-	-	-	(803,920)
Loan receivable	-	-	-	1,715,687
Cash used in investing activities	<u>(1,917,323)</u>	<u>(2,681,250)</u>	<u>(6,619,082)</u>	<u>(20,531,265)</u>
Financing Activities				
Advances from (to) related parties	160,032	(23,328)	225,109	(26,863)
Bridge loan payable	-	317,746	-	13,056,786
Obligation payable	-	-	-	4,328,800
Issuance of shares for cash, net of share issue costs	909,301	560,075	5,419,301	1,030,221
Share subscriptions collected	1,931,279	-	1,931,279	-
Cash provided by financing activities	<u>3,000,612</u>	<u>854,493</u>	<u>7,575,689</u>	<u>18,388,944</u>
Decrease in cash during the period	(71,612)	(1,271,578)	(1,174,210)	(1,768,160)
Cash, beginning of the period	<u>573,748</u>	<u>1,670,205</u>	<u>1,676,346</u>	<u>2,166,787</u>
Cash, end of the period	<u>\$ 502,136</u>	<u>\$ 398,627</u>	<u>\$ 502,136</u>	<u>\$ 398,627</u>
Supplemental disclosure of cash flow information;				
Cash paid for:				
Interest	\$ 299,150	\$ -	\$ 590,702	\$ -
Income taxes	\$ -	\$ -	\$ -	\$ -

SEE ACCOMPANYING NOTES

Non-cash Transactions – Note 11

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
SCHEDULE OF MINERAL PROPERTIES
FOR THE SIX MONTHS ENDED AUGUST 31, 2006

	Argentina					USA			August 31, 2006 Total		
	Gran Bajo	Laguna Guadalosa	Tres Hermanas	Rio Deseado	Taca Taca	La Sarita	Other	Utah Copper		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	-	-	52,827	-	-	-	-	1,591,378	-	-	1,644,205
Cash paid (recovered)	-	-	-	-	-	-	-	-	-	-	-
	74,460	313,661	545,279	579,900	939,339	127,500	-	7,168,852	927,358	17,258,635	27,939,264
Exploration expenditures (recovered)	-	-	-	-	-	-	-	-	-	-	-
Claim fees	-	-	-	-	-	-	-	-	-	12,470	12,470
Equipment	-	-	-	-	-	-	-	-	-	137,433	137,433
Field costs	-	-	2,617	-	8,317	-	2,108	29,329	25,006	271,997	339,374
Geological consulting	-	-	7,138	777	34,323	-	12,333	-	9,204	1,381,560	1,445,335
Miscellaneous	12	-	5,068	556	8,003	-	13,363	-	-	839	27,841
Reclamation bond	-	-	-	-	-	-	-	-	14,283	-	14,283
Taxes	-	186	3,968	-	13,758	-	2,579	-	-	-	20,491
Travel	-	-	3,120	1,254	26,050	-	7,938	-	-	-	38,362
	12	186	21,911	2,587	90,451	-	38,321	29,329	48,493	1,804,299	2,035,589
Plant and equipment under construction	-	-	-	-	-	-	-	489,031	-	5,183,859	5,672,890
Total	\$ 74,472	\$ 313,847	\$ 567,190	\$ 582,487	\$ 1,029,790	\$ 127,500	\$ 38,321	\$ 7,687,212	\$ 975,851	\$ 24,426,793	\$ 36,643,463

PALLADON VENTURES LTD.
SCHEDULE OF MINERAL PROPERTIES
FOR THE YEAR ENDED FEBRUARY 28, 2006

Schedule 1

	Argentina					USA			February 28, 2006 Total		
	Gran Bajo	Laguna Guadaluosa	Tres Hermanas	Rio Deseado	Taca Taca	La Sarita	Other	Utah Copper		Genisis Gold	Iron Springs
Balance, March 1, 2005	\$ 74,240	\$ 312,860	\$ 337,203	\$ 126,448	\$ 835,460	\$ -	\$ -	\$ 2,730,720	\$ 142,365	\$ 159,207	\$ 4,718,503
Acquisition and financing costs	-	-	-	440,000	-	97,500	-	-	577,500	-	1,115,000
Shares issued	-	-	96,429	-	-	30,000	-	-	-	-	17,009,229
Cash paid	-	-	96,429	440,000	-	127,500	-	-	577,500	16,882,800	18,124,229
Exploration expenditures (recovered)	-	-	-	-	-	-	-	-	-	-	-
Assays	-	-	-	-	-	-	-	41,616	5,215	38,169	85,000
Claim fees	-	53	3,544	2,017	3,765	-	6,803	542,762	86,951	24,216	670,111
Equipment	-	-	-	-	-	-	-	93,659	-	46,240	139,899
Geological consulting	-	-	28,708	6,101	83,836	-	487,654	791,234	94,366	-	1,491,899
Field costs	-	744	3,448	1,257	7,619	-	8,404	342,618	18,399	-	382,489
Miscellaneous	220	4	7,252	581	3,870	-	50,886	769,481	1,279	108,003	941,576
Salaries	-	-	-	-	-	-	-	221,480	-	-	221,480
Supplies	-	-	1,234	332	588	-	22,656	43,904	1,283	-	69,997

PALLADON VENTURES LTD.
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 MAY 31, 2005 AND FEBRUARY 28, 2005 – PAGE 2

Travel	-	-	14,634	3,164	4,201	-	40,330	-	-	-	-	62,329
	220	801	58,820	13,452	103,879	-	616,733	2,846,754	207,493	216,628	4,084,780	
Plant and equipment under construction	-	-	-	-	-	-	-	431,924	-	2,326,551	2,758,475	
Write-offs	-	-	-	-	-	-	(616,733)	-	-	-	(616,733)	
Total	\$ 74,460	\$ 313,661	\$ 492,452	\$ 579,900	\$ 939,339	\$ 127,500	\$ -	\$ 6,009,398	\$ 927,358	\$ 19,585,186	\$ 29,049,254	

PALLADON VENTURES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 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 August 31, 2006, the Company was in the exploration stage and had interests in properties located in Argentina and the United States of America. The Company is listed on the TSX Venture Exchange (the "Exchange") and the Frankfurt exchange.

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 August May 31, 2006, the Company has not yet achieved profitable operations and has accumulated losses of \$13,237,969 since its inception. 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.

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

Note 2 Significant Accounting Policies (continued)

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>August 31, 2006</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Office furniture and equipment	\$ 31,741	\$ 10,008	\$ 21,733
Vehicle	<u>44,194</u>	<u>21,842</u>	<u>22,352</u>
	<u>\$ 75,935</u>	<u>\$ 31,850</u>	<u>\$ 44,085</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 (\$719,290 (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
AUGUST 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	US\$	<u>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
AUGUST 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
AUGUST 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, 2006		31,977,109	20,208,913
For cash:			
Private placement	- at \$0.50	10,000,000	5,000,000
Less: share issue costs, cash		-	(490,000)
agent's options		-	(247,000)
Private placement	- at \$0.55	1,400,000	770,000
Exercise of broker options	- at \$0.50	278,602	208,116
Balance, August 31, 2006		<u>43,655,711</u>	<u>\$ 25,450,029</u>

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

Note 7 Share Capital – (cont'd)

Escrow shares:

As at August 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 six months ended August 31, 2006 and the year ended February 28, 2006 are summarized as follows:

	<u>Period ended</u> <u>August 31, 2006</u>		<u>Year ended</u> <u>February 29, 2006</u>	
	<u>Shares</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Shares</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>
Outstanding, beginning of period	1,975,000	\$0.66	1,590,000	\$0.55
Granted	-	-	1,135,000	\$0.75
Agent's options granted	1,000,000	\$0.50	-	-
Exercised	(278,602)	\$0.50	(500,000)	-
Expired	<u>-</u>	-	<u>(250,000)</u>	-
Outstanding, end of period	<u>2,696,398</u>	\$0.61	<u>1,975,000</u>	\$0.66
Exercisable, end of period	<u>2,696,398</u>		<u>1,975,000</u>	

During the quarter ended May 31, 2006 the Company intended to grant 290,000 options, and stock based compensation of \$176,900 was recorded during the quarter. Subsequently it was determined that these options were not granted and accordingly the stock based compensation has been reversed during the quarter ended August 31, 2006.

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Note 7 Share Capital – (cont'd)

Commitments: – (cont'd)

Stock-based compensation – (cont'd)

As at August 31, 2006, there were 2,696,038 employee, director and agent's share purchase options outstanding. Each option entitles the holder thereof the right to purchase one common share, except for the agent's options as follows:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
721,038	\$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
<u>160,000</u>	\$0.75	November 10, 2010
<u>2,696,038</u>		

The 721,038 agent's options are exercisable into units, each unit comprised of one common share and one additional share purchase warrant exercisable at \$0.75 for a period of 24 months.

Share Purchase Warrants

As at August 31, 2006, the Company had 13,932,174 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
2,357,137	\$0.62	September 23, 2007
10,000,000	\$0.75	March 31, 2008
278,962	\$0.75	July 13, 2008
<u>700,000</u>	\$0.70	July 20, 2008

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13,932,174

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Note 7 Share Capital – (cont'd)

Contributed Surplus

	<u>August 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	247,000	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	(68,815)	(187,501)
Less: deferred finance charge	-	(825,037)
	<hr/>	<hr/>
Balance, end of period	<u>\$ 1,351,256</u>	<u>\$ 1,173,071</u>

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:

	Six Months Ended	
	August 31, <u>2006</u>	May 31, <u>2005</u>
Management and consulting fees	\$ 0	\$ 48,043
Rent	<u>0</u>	<u>15,166</u>
Total	<u>\$ 0</u>	<u>\$ 63,209</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.

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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 August 31, 2006, cash totalling \$264,895 (February 28, 2006: \$1,476,245) was held in US dollars and \$nil in Argentine Pesos (February 28, 2006: \$791).

Note 10 Subsequent Events

Subsequent to August 31, 2006:

- a) The Company closed the second tranche of a non-brokered private placement and issued 3,604,497 units at \$0.55 per unit for cash proceeds of \$1,982,474. 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. Finders' fees in the aggregate of \$194,275 were paid with respect to this private placement.
- b) The Company announced an option agreement with Maestro Ventures Ltd. ("Maestro") (a public company with a Director in common) whereby Maestro will issued 450,000 common shares to the Company and has agreed to spend US\$5,000,000 over five years to earn a 75% interest in the Company's Nevada and Utah properties.