

PALLADON VENTURES LTD.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED AUGUST 31, 2008

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 30, 2008

PALLADON VENTURES LTD.
INTERIM CONSOLIDATED BALANCE SHEETS
AUGUST 31, 2008 AND FEBRUARY 29, 2008

| | <u>ASSETS</u> | <u>August 31, 2008</u> | <u>Feb. 29, 2008</u> |
|---|---------------|------------------------|----------------------|
| Current | | | |
| Cash | | \$ 13,678,711 | \$ 820,381 |
| GST recoverable | | 47,774 | 47,774 |
| Accounts receivable | | 3,827 | 13,232 |
| Marketable securities | | <u>166,500</u> | <u>166,500</u> |
| Total Current Assets | | 13,896,812 | 1,047,887 |
| Equipment – Note 3 | | 602,177 | 69,542 |
| Reclamation Bond – Note 4 | | 832,537 | 636,220 |
| Mineral properties – Notes 4,5,6 and Schedule 1 | | 26,171,823 | 24,028,077 |
| Other – Note 6 | | 10 | 10 |
| Goodwill | | <u>69,006,468</u> | <u>0</u> |
| Total Assets | | <u>\$ 110,509,827</u> | <u>\$ 25,781,736</u> |

LIABILITIES

| | | | |
|--|--|----------------------|----------------------|
| Current | | | |
| Accounts payable and accrued liabilities | | \$ 371,022 | \$ 860,084 |
| Due to related party – Note 9 | | 243,972 | |
| | | <u>614,994</u> | <u>1,743,098</u> |
| Loan payable – Note 7 | | 34,542,538 | 9,251,843 |
| Non-controlling interest- note 11 | | <u>0</u> | <u>4,308,306</u> |
| Total Liabilities | | <u>\$ 35,157,532</u> | <u>\$ 15,303,247</u> |

SHAREHOLDERS' EQUITY

| | | | |
|--|--|-----------------------|----------------------|
| Share capital – Note 8 | | 101,263,984 | 35,691,028 |
| Contributed surplus – Note 7 | | 3,166,383 | 3,166,383 |
| Deficit – Note 2 | | <u>(29,078,072)</u> | <u>(28,378,922)</u> |
| | | <u>75,352,295</u> | <u>10,478,489</u> |
| Total Liabilities and Shareholder Equity | | <u>\$ 110,509,827</u> | <u>\$ 25,781,736</u> |

Nature and Continuance of Operations – Note 1
Commitments – Notes 4, 5, 6
Subsequent Events – Note 12

APPROVED BY THE DIRECTORS:

“Donald G. Foot, Jr.” Director

“Annjanine F. Etzel” Director

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2008 AND 2007

| | Three Months Ended August 31 | | Six Months Ended August 31 | |
|---|---------------------------------|------------------------|-------------------------------|------------------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Sales | | \$ 34,796 | | \$ 88,273 |
| Cost sales, delivery | | | | 28,893 |
| Gross margin | | 34,796 | | 59,380 |
| General and Administrative Expenses | | | | |
| Amortization | 19,271 | 2,794 | 23,752 | 15,775 |
| Bank charges | 425 | 392 | 666 | 947 |
| Consulting | 41,931 | 17,445 | 47,158 | |
| Interest | 926,665 | 247,171 | 605,755 | 647,616 |
| Investor relations | | | 763 | |
| Management fees | | | | 15,000 |
| Office and administration | 62,380 | 124,242 | 148,428 | 268,037 |
| Professional fees | 126,866 | 96,397 | 236,364 | 124,765 |
| Rent | 21,066 | 47,348 | 58,957 | 90,587 |
| Salaries and benefits | 269,020 | 241,642 | 465,215 | |
| Shareholder communications | 44,257 | 3,075 | 46,583 | 6,299 |
| Stock-based compensation | | | | |
| Telephone | 3,964 | 4,781 | 6,532 | 9,614 |
| Transfer agent and filing fees | 4,932 | 3,114 | 14,206 | 55,329 |
| Travel and promotion | 34,003 | 73,923 | 49,022 | 155,899 |
| | <u>1,554,829</u> | <u>(862,624)</u> | <u>1,703,400</u> | <u>(1,957,714)</u> |
| Loss before other items | (1,554,829) | (827,828) | (1,703,400) | (1,898,333) |
| Other items: | | | | |
| Interest income | | 170 | 507 | 1,788 |
| Other income | 3,370 | 14,977 | 13,668 | |
| Gain (loss) on foreign exchange | (40,685) | (36,374) | (34,725) | (78,216) |
| | <u>(37,315)</u> | <u>(21,227)</u> | <u>(20,550)</u> | <u>470,222</u> |
| Net income (loss) for the period before non-controlling interest | (1,592,144) | (849,055) | (1,723,950) | (1,428,111) |
| Non-controlling interest | | (196,431) | (166,425) | (466,008) |
| Net income (loss) for the period | (1,592,144) | (652,623) | (1,557,525) | (962,104) |
| Deficit, beginning of the period | (28,897,991) | (24,210,889) | (28,378,922) | (23,887,556) |
| Deficit, end of the period | <u>\$ (30,490,135)</u> | <u>\$ (24,863,512)</u> | <u>\$ (29,936,447)</u> | <u>\$ (24,849,660)</u> |
| Basic and fully diluted | | | | |
| income (loss) per share | <u>(0.113)</u> | <u>\$ (0.009)</u> | <u>(0.014)</u> | <u>\$ (0.015)</u> |
| Weighted average number | | | | |
| of shares outstanding | <u>141,325,669</u> | <u>76,417,465</u> | <u>110,467,874</u> | <u>65,451,535</u> |

PALLADON VENTURES LTD.

SEE ACCOMPANYING NOTES

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED AUGUST 31, 2008 AND 2007**

| | Three Months Ended August 31 | |
|--|---------------------------------|---------------------|
| | <u>2008</u> | <u>2007</u> |
| Operating Activities | | |
| Net income (loss) for the period | \$ (1,592,145) | \$ (812,681) |
| Items not involving cash: | | |
| Amortization | 19,271 | 2,794 |
| Shares issued for debt | | |
| Stock-based compensation | - | |
| Non-controlling interest | | 196,731 |
| Unrealized foreign exchange loss (gain) | (43,797) | 36,374 |
| | <u>(1,635,942)</u> | <u>(577,082)</u> |
| Changes in non-cash working capital items: | | |
| GST recoverable | - | |
| Prepaid expenses | - | |
| Accounts payable and accrued liabilities | (152,561) | (432,646) |
| Cash used in operating activities | <u>(152,561)</u> | <u>(432,646)</u> |
| Investing Activities | | |
| Investing Activities | (70,674,335) | |
| Acquisition of equipment | (467,303) | (842,758) |
| Mineral property costs | (2,643,553) | (314,164) |
| Cash used in investing activities | <u>(73,785,191)</u> | <u>(1,156,922)</u> |
| Financing Activities | | |
| Advances from (to) related parties | (3,852,565) | 132,949 |
| Issuance of shares for cash, net of share issue costs | 58,896,855 | |
| Loan | 25,290,694 | |
| Cash provided by financing activities | <u>88,040,114</u> | <u>132,949</u> |
| Increase (decrease) in cash during the period | 12,790,813 | (2,033,701) |
| Cash, beginning of the period | <u>887,898</u> | <u>6,151,629</u> |
| Cash, end of the period | <u>\$13,678,711</u> | <u>\$ 4,117,928</u> |
| Supplemental disclosure of cash flow: | | |
| Cash paid for: | | |
| Interest | \$ 387,629 | 233,649 |
| Income taxes | \$ - | \$ - |

Non-cash Transactions – Note 11

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES AND RELATED EQUIPMENT
For the year ended August 31, 2008

Schedule 1

| | <u>Argentina</u> | | <u>USA</u> | | | | | | | | <u>Total</u> |
|------------------------------------|------------------------|-------------------------|-----------------------------|-------------------------------------|---------------------|--------------------|---------------------|---------------------|-----------------------|----------------------|--------------|
| | <u>Utah Copper</u> | <u>Genesis Gold</u> | <u>Mineral Property</u> | <u>Iron Springs</u> | | | | | <u>Power Line</u> | | |
| | | | | <u>Equipment Under Construction</u> | | | | | | | |
| | | | | <u>Ball Mill</u> | <u>Rail Line</u> | <u>Transformer</u> | <u>Substation</u> | <u>Plant</u> | | | |
| Balance, beginning | \$ 10 | \$ 894,652 | \$ 14,129,278 | \$ 1,467,175 | \$ 2,495,036 | \$ 944,559 | \$ 2,546,271 | \$ 1,040,371 | \$ 510,715 | \$ 24,028,077 | |
| Acquisition and construction costs | - | - | 1,141,316 | 24,687 | - | 38,180 | 28,000 | 308,067 | 467,303 | 2,007,553 | |
| Exploration expenditures | | | | | | | | | | | |
| Claim Fees | | | 19,145 | | | | | | | 19,145 | |
| Field costs | - | - | - | - | - | - | - | - | - | - | |
| Geological consulting | - | - | 44,432 | - | - | - | - | - | - | 44,432 | |
| Security and site maintenance | - | - | 121,684 | - | - | - | - | - | - | 121,684 | |
| Miscellaneous | - | - | - | - | 27,890 | - | - | - | - | 27,890 | |
| Less: ore sales net of cost | - | - | (76,959) | - | - | - | - | - | - | (76,959) | |
| | - | - | 108,302 | - | 27,890 | - | - | - | - | 136,192 | |
| Write-offs | - | - | - | - | - | - | - | - | - | - | |
| Total | <u>\$ 10</u> | <u>\$ 894,652</u> | <u>\$ 15,378,896</u> | <u>\$ 1,491,862</u> | <u>\$ 2,522,926</u> | <u>\$ 982,739</u> | <u>\$ 2,574,271</u> | <u>\$ 1,348,438</u> | <u>\$ 978,018</u> | <u>\$ 26,171,823</u> | |

PALLADON VENTURES LTD.
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES AND RELATED EQUIPMENT
For the year ended February 29, 2008

Schedule 1

| | <u>Argentina</u> | <u>USA</u> | | | | | | | | | <u>Total</u> |
|--------------------------------------|------------------------|-------------------------|-----------------------------|-------------------------------------|---------------------|---------------------|-------------------|---------------------|-----------------------|-------------------|----------------------|
| | <u>Utah Copper</u> | <u>Genesis Gold</u> | <u>Mineral Property</u> | <u>Iron Springs</u> | | | | | <u>Power Line</u> | | |
| | | | | <u>Equipment Under Construction</u> | | | | | | | |
| | | | | <u>Ball Mill</u> | <u>Rail Line</u> | <u>Transformer</u> | <u>Substation</u> | <u>Plant</u> | | | |
| Balance, beginning | \$ 1,441,206 | \$ 10 | \$ 894,652 | \$ 14,403,729 | \$ 1,219,526 | \$ 2,485,999 | \$ 786,637 | \$ 649,686 | \$ 556,428 | \$ - | \$ 22,437,873 |
| Acquisition and construction costs | - | - | - | - | 247,649 | 9,037 | 157,922 | 1,896,585 | 483,943 | 510,715 | 3,305,851 |
| Exploration expenditures (recovered) | | | | | | | | | | | |
| Field costs | 394,555 | - | - | 51,909 | - | - | - | - | - | - | 446,464 |
| Geological consulting | - | - | - | 14,442 | - | - | - | - | - | - | 14,442 |
| Security and site maintenance | - | - | - | 320,843 | - | - | - | - | - | - | 320,843 |
| Less: proceeds on land sale | - | - | - | (515,701) | - | - | - | - | - | - | (515,701) |
| Less: ore sales net of cost | - | - | - | (145,944) | - | - | - | - | - | - | (145,944) |
| | <u>394,555</u> | <u>-</u> | <u>-</u> | <u>(274,451)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>120,104</u> |
| Write-offs | <u>(1,835,751)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,835,751)</u> |
| Total | <u>\$ 10</u> | <u>\$ 10</u> | <u>\$ 894,652</u> | <u>\$ 14,129,278</u> | <u>\$ 1,467,175</u> | <u>\$ 2,495,036</u> | <u>\$ 944,559</u> | <u>\$ 2,546,271</u> | <u>\$ 1,040,371</u> | <u>\$ 510,715</u> | <u>\$ 24,028,077</u> |

PALLADON VENTURES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2008 AND FEBRUARY 29, 2008

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. At August 31, 2008, 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 has commenced mining at Iron Mountain. The Company is in the development stage as to all other properties 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 of August 31, 2008, the Company has not yet achieved profitable operations and has accumulated losses of \$29,936,447 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 29, 2008 for additional information.

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
AUGUST 31, 2008 AND FEBRUARY 29, 2008 – 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>August 31, 2008</u> | | |
|--------------------------------|--------------------------|-------------------------------------|-------------------|
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net</u> |
| Equipment, furniture, office | \$ 655,430 | \$ 53,753 | \$ 602,177 |
| | <u>\$ 655,430</u> | <u>\$ 53,753</u> | <u>\$ 602,177</u> |
| | <u>February 29, 2008</u> | | |
| | <u>Cost</u> | <u>Accumulated Amortization</u> | <u>Net</u> |
| Office furniture and equipment | \$ 103,524 | \$ 33,982 | \$ 69,542 |
| | <u>\$ 103,524</u> | <u>\$ 33,982</u> | <u>\$ 69,542</u> |

Note 4 Reclamation Bond

The Company is obligated to provide an amount of US\$1,426,900 as security for future reclamation work on the Iron Mountain property. The Company has obtained an insurance policy to fund on the original balance \$ 1,300,000 in the event that a claim is made. The Company has deposited US\$650,000 with the insurance company as additional security on the policy for the original \$ 1,300,000 in August, 2008, after the Utah Division of Oil & Gas and Mining recalculated the necessary surety with the start of mining operations. At that time, it was determined that the total bond liability for the next five-year term commencing in 2008 is \$1,426,9000. The company deposited the additional \$126,900 with DOGM as additional security on the Reclamation Bond.

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.

Argentina

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.

During the year ended February 29, 2008, the Company has written off \$1,441,196 to record the carrying value at a nominal amount of \$10.

Utah, USA

- a) The Company had an option to acquire a 50% interest in approximately 40,000 acres of mineral rights located in Beaver County, Utah. As consideration, the Company was to update and finalize a feasibility study and expend up to US\$4 million over five years with a minimum of US\$800,000 (paid) to be spent in the first year.

During the year ended February 28, 2007, the Company and the optionor entered into an amending agreement that provided terms whereby either part could buy out the other’s interest. On January 5, 2007 the optionor exercised its option to purchase the Company’s interest in the Utah Copper project for US\$3 million (received), a 1% net smelter royalty from copper produced from the current resource (maximum US \$10 million) and a 2% net smelter royalty from copper produced from newly-discovered ore bodies.

As a result of the disposal of its direct interest in the property, the Company written-off the remaining carrying value by \$4,180,792 to a nominal value of \$10 during the year ended February 28, 2007.

- 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 (the Genesis Gold 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. During the year ended February 28, 2006, the Company issued 1,150,000 common shares valued at \$577,500 to maintain its option in each of the five mineral properties. During the year ended February 28, 2007, the Company issued 150,000 shares valued at \$57,000 to obtain a 100% interest in the properties. The properties are subject to a 3% net smelter return royalty.

During the year ended February 28, 2007, 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 (received) and 850,000 shares to the underlying optionor within five days of regulatory approval. The optionee must also incur exploration expenditures of US\$5 million over five years of which US\$1,200,000 must be completed during calendar 2006.

- c) During the year ended February 28, 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 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

PALLADON VENTURES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2008 AND FEBRUARY 29, 2008 – PAGE 4

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 previously made by the Company to WUCC. The Iron Springs properties are held by the Company's subsidiary, Palladon Iron Corporation.

- d) During the quarter ended May 31, 2008, Palladon Iron Corporation signed a five-year contract provides for the sale of run-of-mine iron ore to China Kingdom International (CKI) and its Australian subsidiary, China Kingdom International Australia, at an initial rate of 2,000,000 metric tonnes. Pricing is fixed through March 31, 2009, and will adjust for future annual periods based on changes in the World Benchmark prices for iron ore. The contract price quoted FOB west coast U.S. port, with CKI responsible for all ocean-going freight including the contracting and scheduling of ocean vessels. PIC estimates that initial capital investment to be less than \$5 million, with shipments expected to commence in the third quarter of this year.

Note 6 Other Asset

During the year ended February 28, 2005, the Company completed an arrangement for securitizing certain default loans payable to the Company. In that arrangement, the debtor conveyed to the Company an undivided 50% interest in certain land holdings, known as the Murdock Railroad Property, located in Beaver County, Utah. The Company's interest in the land holding has been recorded at a nominal value of \$10.

Note 7 Loans Payable

The Company entered into a 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. During the year ended February 29, 2008, the Company paid the Luxor loan down to a balance of US\$9,251,843. During the period ended August 31, 2008, the Company purchased Luxor's interest in PIC. The purchase price included a deferred seller payment of US\$25 million due to Luxor 12 months after closing. The deferred seller payment is fully secured by the assets of PIC and carries interest at 11.6% with no prepayment penalty. This payment is due June 28, 2009. The existing loan was amended so that the maturity date is the same as when the deferred seller payment is due. All other terms of the previous loan agreement remain unchanged.

Note 8

Share Capital – Notes 5, 7 and 13

Authorized: Unlimited common shares without par value.

PALLADON VENTURES LTD.
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
 AUGUST 31, 2008 AND FEBRUARY 29, 2008 – PAGE 5

Issued:

| | | <u>Number of Shares</u> | <u>(Restated – Note 16) Amount</u> |
|---|--|-----------------------------|--|
| E s c r o w s h a r e s : | 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 | 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 | - | 266,001 |
| | 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 | 150,000 | 97,500 | |
| Balance, February 28, 2006 | 31,977,109 | 20,287,413 | |
| For cash: | | | |
| Private placements | | | |
| - at \$0.50 | 10,000,000 | 5,000,000 | |
| - at \$0.55 | 5,004,497 | 2,752,473 | |
| Less: share issue costs | - | (1,052,471) | |
| Exercise of broker options | 278,602 | 139,301 | |
| Pursuant to mineral property agreements | 150,000 | 57,000 | |
| - at \$0.38 | 150,000 | 57,000 | |
| Balance, February 28, 2007 | 47,410,208 | \$ 27,183,716 | |
| For cash: | | | |
| Debt Settlement | | | |
| - at \$0.70 | 2,290,597 | 1,603,418 | |
| Private placement | | | |
| - at \$0.30 | 26,187,410 | 7,856,223 | |
| Less share issue costs | 564,750 | (952,329) | |
| Escrow cancelled | (35,500) | - | |
| Balance, February 29, 2008 | 76,417,465 | \$35,691,028 | |
| For cash: | | | |
| Private placement | | | |
| - at \$0.705 | 88,247,054 | 62,214,173 | |
| Less share issue costs | | | |
| Exercise of warrants | | | |
| - at \$0.50 | 3,126,000 | 1,563,000 | |
| - at \$0.70 | 773,613 | 541,529 | |
| - at \$0.40 | 300,000 | 120,000 | |
| - at \$0.50 | 100,000 | 50,000 | |

PALLADON VENTURES LTD.
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2008 AND FEBRUARY 29, 2008 – PAGE 6

Balance, August 31, 2008 168,964,132 \$101,263,984

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, 2008 and the year ended February 29, 2008 are summarized as follows:

| | <u>Six months</u> <u>August 31, 2008</u> | | <u>Year ended</u> <u>February 29, 2008</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 | 2,835,000 | \$0.57 | 3,360,000 | \$0.57 |
| Granted | | | 600,000 | \$0.40 |
| Agent's options granted | | | - | - |
| Exercised | (200,000) | \$0.40 | - | - |
| Cancelled | (30,000) | \$0.85 | (1,125,000) | \$0.74 |
| | (160,000) | \$0.75 | | |
| | (440,000) | \$0.40 | | |
| Outstanding, end of period | <u>1,805,000</u> | \$0.62 | <u>2,835,000</u> | \$0.57 |
| Exercisable, end of period | <u>1,805,000</u> | | <u>2,835,000</u> | |

At August 31, 2008, there were 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</u> <u>of Options</u> | <u>Exercise</u> <u>Price</u> | <u>Expiry</u> <u>Date</u> |
|------------------------------------|---------------------------------|------------------------------|
| 100,000 | \$0.45 | September 8, 2008 |
| 50,000 | \$0.80 | November 26, 2008 |
| 300,000 | \$0.75 | April 21, 2010 |
| 150,000 | \$0.85 | August 8, 2010 |
| 125,000 | \$0.75 | August 29, 2010 |
| 480,000 | \$0.40 | December 15, 2011 |

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| | | |
|------------------|--------|------------------|
| <u>600,000</u> | \$0.40 | November 5, 2012 |
| <u>1,805,000</u> | | |

Share Purchase Warrants

At August 31, 2008, the Company had 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> |
|-------------------|-----------------------|--------------------|
| 10,250,080 | \$0.50 | September 11, 2009 |
| <u>22,061,739</u> | \$1.00 | December 26, 2009 |
| <u>32,311,819</u> | | |

Contributed Surplus:

| | <u>August 31,</u> <u>2008</u> | <u>February 29,</u> <u>2008</u> |
|--|----------------------------------|------------------------------------|
| Balance, beginning of period | \$ 3,166,383 | \$ 2,288,089 |
| Fair value of share purchase options granted | - | 493,919 |
| Private Placement | | 282,375 |
| Stock-based compensation | <u>-</u> | <u>102,000</u> |
| Balance, end of period | <u>\$ 3,166,383</u> | <u>\$ 3,166,383</u> |

Note 9 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 | |
|----------|----------------------------------|----------------------------------|
| | <u>August 31,</u> <u>2008</u> | <u>August 31,</u> <u>2007</u> |
| Salaries | <u>\$ 93,333</u> | <u>\$ 106,112</u> |
| Total | <u>\$ 93,333</u> | <u>\$ 106,112</u> |

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Note 10 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. The Company monitors this exposure, but has no hedge positions. At August 31, 2008, cash totalling \$13,313,215 (February 29, 2008: \$820,381) was held in US dollars.

Note 11 Non-controlling Interest

On June 26, 2008, the Company acquired the interest of its joint venture partner, Luxor Capital Partners (“Luxor”) in Palladon Iron Corporation (“PIC”). The transaction allows the Company to fully consolidate PIC under Palladon’s ownership.