

PALLADON VENTURES LTD.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

February 29, 2008 and February 28, 2007



BDO Dunwoody LLP
Chartered Accountants

#604 – 750 West Pender Street
Vancouver, BC, Canada V6C 2T7
Telephone: (604) 689-0188
Fax: (604) 689-9773

AUDITORS' REPORT

To the Shareholders,
Palladon Ventures Ltd.

We have audited the consolidated balance sheets of Palladon Ventures Ltd. (the “Company”) as at February 29, 2008 and February 28, 2007 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 29, 2008 and February 28, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) “BDO Dunwoody LLP”

Chartered Accountants

Vancouver, Canada
August 20, 2008

PALLADON VENTURES LTD.
CONSOLIDATED BALANCE SHEETS
February 29, 2008 and February 28, 2007

	<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current			
Cash	\$	820,381	\$ 135,936
GST recoverable		47,774	24,834
Amounts receivable		13,232	55,706
Marketable securities		166,500	144,000
Prepaid expenses and deposits		<u>-</u>	<u>69,678</u>
		1,047,887	430,154
Equipment – Note 3		69,542	52,281
Reclamation bond – Note 4		636,220	754,845
Mineral properties and related equipment – Note 5 and Schedule 1		24,028,077	22,437,873
Other – Note 6		<u>10</u>	<u>10</u>
		<u>\$ 25,781,736</u>	<u>\$ 23,675,163</u>

LIABILITIES

Current			
Accounts payable and accrued liabilities	\$	860,084	\$ 474,929
Due to related parties – Notes 9, 13 and 15		883,014	2,247,150
Loan payable – Note 7		<u>-</u>	<u>174,195</u>
		1,743,098	2,896,274
Loan payable – Notes 7 and 15		9,251,843	11,390,217
Non-controlling interest		<u>4,308,306</u>	<u>3,804,423</u>
		<u>15,303,247</u>	<u>18,090,914</u>

SHAREHOLDERS' EQUITY

Share capital – Notes 8, 13 and 15	35,691,028	27,183,716
Contributed surplus – Notes 2 and 8	3,166,383	2,288,089
Deficit	<u>(28,378,922)</u>	<u>(23,887,556)</u>
	<u>10,478,489</u>	<u>5,584,249</u>
	<u>\$ 25,781,736</u>	<u>\$ 23,675,163</u>

Nature of Operations and Ability to Continue as a Going Concern – Note 1
 Commitments – Notes 5, 7, 8, 12 and 15
 Subsequent Events – Notes 5, 7, 8 and 15

APPROVED BY THE DIRECTORS:

<u>“Donald G. Foot Jr.”</u> Donald G. Foot Jr.	Director	<u>“Jeffrey D. Clark”</u> Jeffrey D. Clark	Director
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SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
for the years ended February 29, 2008 and February 28, 2007

	<u>2008</u>	<u>2007</u>
General and administrative expenses		
Amortization	\$ 20,780	\$ 9,884
Bank charges	1,237	3,328
Consulting	57,463	74,868
Interest on long-term debt	954,647	1,644,046
Investor relations	1,723	17,084
Management fees – Note 9	56,069	109,911
Office and administration	172,671	310,014
Professional fees – Note 9	219,314	405,961
Rent	173,868	136,111
Salaries and benefits – Note 9	938,288	803,151
Shareholder communications	9,489	75,491
Stock-based compensation – Note 8	102,000	288,000
Telephone	17,653	29,813
Transfer agent and filing fees	64,045	160,809
Travel and promotion	<u>211,736</u>	<u>391,697</u>
Loss before other and non-controlling interest	(3,000,983)	(4,460,168)
Other:		
Unrealized loss on marketable securities	(2,250)	-
Gain on debt settlement – Note 8	66,248	-
Gain on investment	-	688,802
Write-off of mineral properties – Note 5	(1,835,751)	(5,735,310)
Write-off of equipment	-	(26,295)
Other income	36,706	87,791
Interest income	49,448	7,784
Gain (loss) on foreign exchange	<u>1,168,268</u>	<u>(931,693)</u>
Loss before non-controlling interest	(3,518,314)	(10,369,089)
Non-controlling interest	<u>(503,883)</u>	<u>669,226</u>
Net loss and comprehensive loss for the year	(4,022,197)	(9,699,863)
Deficit, beginning of the year	(23,887,556)	(14,187,693)
Change in accounting policies – Note 2(k)	<u>(469,169)</u>	<u>-</u>
Deficit, end of the year	<u>\$ (28,378,922)</u>	<u>\$ (23,887,556)</u>
Basic and diluted loss per share	<u>\$ (0.06)</u>	<u>\$ (0.22)</u>
Weighted average number of shares outstanding	<u>70,889,435</u>	<u>43,800,382</u>

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended February 29, 2008 and February 28, 2007

	<u>2008</u>	<u>2007</u>
Operating Activities		
Net loss for the year, before non-controlling interest	\$ (3,518,314)	\$ (10,369,089)
Items not involving cash:		
Amortization	20,780	9,884
Gain on debt settlement	(66,248)	-
Unrealized loss on marketable securities	2,250	-
Stock-based compensation	102,000	288,000
Unrealized foreign exchange loss (gain)	(1,524,061)	368,212
Interest paid	-	1,019,920
Gain on sale	-	(688,802)
Write-off of equipment	-	26,295
Write-off of mineral properties	<u>1,835,751</u>	<u>5,735,310</u>
	(3,147,842)	(3,610,270)
Changes in non-cash working capital items:		
Amounts receivable	42,474	(55,706)
GST recoverable	(22,940)	(13,551)
Prepaid expenses	69,678	(44,882)
Accounts payable and accrued liabilities	<u>(206,125)</u>	<u>(1,403,583)</u>
Cash used in operating activities	<u>(3,264,755)</u>	<u>(5,127,992)</u>
Investing Activities		
Acquisition of equipment	(38,041)	(57,347)
Mineral property (costs) recovered	274,451	647,796
Equipment under construction	<u>(2,648,322)</u>	<u>(3,371,726)</u>
Cash used in investing activities	<u>(2,411,912)</u>	<u>(2,781,277)</u>
Financing Activities		
Advances from related parties	(155,273)	643,732
Issuance of shares for cash	7,186,268	7,219,304
Loans payable	(532,769)	(2,757,030)
Non-controlling interest	<u>-</u>	<u>1,261,626</u>
Cash provided by financing activities	<u>6,498,226</u>	<u>6,367,632</u>
Foreign exchange loss (gain) on cash held in foreign currency	<u>(137,114)</u>	<u>1,227</u>

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SEE ACCOMPANYING NOTES

Continued

PALLADON VENTURES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended February 29, 2008 and February 28, 2007

	<u>2008</u>	<u>2007</u>
Increase (decrease) in cash during the year	684,445	(1,540,410)
Cash, beginning of the year	<u>135,936</u>	<u>1,676,346</u>
Cash, end of the year	<u>\$ 820,381</u>	<u>\$ 135,936</u>
Supplemental disclosure of cash flow information;		
Cash paid for:		
Interest	<u>\$ 929,249</u>	<u>\$ 979,119</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

Non-cash Transactions – Note 14

SEE ACCOMPANYING NOTES

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>Power Line</u>	<u>Total</u>
	<u>Utah Copper</u>	<u>Genesis Gold</u>	<u>Mineral Property</u>	<u>Iron Springs</u>							
				<u>Equipment Under Construction</u>				<u>Plant</u>			
				<u>Ball Mill</u>	<u>Rail Line</u>	<u>Transformer</u>	<u>Substation</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	
Exploration expenditures (recovered)											
Field costs	394,555	-	-	51,909	-	-	-	-	-	-	-
Geological consulting	-	-	-	14,442	-	-	-	-	-	-	-
Security and site maintenance	-	-	-	320,843	-	-	-	-	-	-	-
Less: proceeds on land sale	-	-	-	(515,701)	-	-	-	-	-	-	-
Less: ore sales net of cost	-	-	-	(145,944)	-	-	-	-	-	-	-
	394,555	-	-	(274,451)	-	-	-	-	-	-	-
											120,104
Write-offs	(1,835,751)	-	-	-	-	-	-	-	-	-	-
											(1,835,751)
Total	\$ 10	\$ 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

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SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES AND RELATED EQUIPMENT
For the year ended February 28, 2007

	<u>Argentina</u>	<u>USA</u>								<u>Total</u>
	<u>Utah Copper</u>	<u>Genesis Gold</u>	<u>Mineral Property</u>	<u>Iron Springs Equipment Under Construction</u>					<u>Plant</u>	
				<u>Ball Mill</u>	<u>Rail Line</u>	<u>Transformer</u>	<u>Substation</u>			
Balance, beginning	\$ 2,527,312	\$ 6,009,398	\$ 927,358	\$ 13,745,625	\$ -	\$ 1,830,029	\$ -	\$ 334,058	\$ 162,464	\$ 25,536,244
Acquisition and construction costs	-	-	-	-	1,219,526	655,970	786,637	315,628	393,964	3,371,725
Shares issued	-	-	57,000	-	-	-	-	-	-	57,000
Cash paid	45,000	1,610,800	-	-	-	-	-	-	-	1,655,800
	<u>45,000</u>	<u>1,610,800</u>	<u>57,000</u>	<u>-</u>	<u>1,219,526</u>	<u>655,970</u>	<u>786,637</u>	<u>315,628</u>	<u>393,964</u>	<u>5,084,525</u>
Exploration expenditures (recovered)										
Claim fees	120,108	-	-	-	-	-	-	-	-	120,108
Field costs	29,153	70,604	17,090	437,460	-	-	-	-	-	554,307
Geological consulting	113,142	-	-	42,258	-	-	-	-	-	155,400
Miscellaneous	56,885	-	-	-	-	-	-	-	-	56,885
Security and site maintenance	-	-	-	275,351	-	-	-	-	-	275,351
Taxes	30,844	-	-	-	-	-	-	-	-	30,844
Travel	73,280	-	-	-	-	-	-	-	-	73,280
Less: ore sales net of cost	-	-	-	(96,965)	-	-	-	-	-	(96,965)
	<u>423,412</u>	<u>70,604</u>	<u>17,090</u>	<u>658,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,169,210</u>
Reclamation bonds	-	-	37,204	-	-	-	-	-	-	37,204
Less recoveries	-	(3,510,000)	(144,000)	-	-	-	-	-	-	(3,654,000)
Write-offs	(1,554,518)	(4,180,792)	-	-	-	-	-	-	-	(5,735,310)
	<u>(1,554,518)</u>	<u>(7,690,792)</u>	<u>(106,796)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,352,106)</u>
Total	\$ <u>1,441,206</u>	\$ <u>10</u>	\$ <u>894,652</u>	\$ <u>14,403,729</u>	\$ <u>1,219,526</u>	\$ <u>2,485,999</u>	\$ <u>786,637</u>	\$ <u>649,686</u>	\$ <u>556,428</u>	\$ <u>22,437,873</u>

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
February 29, 2008 and February 28, 2007

Note 1 Nature of Operations and Ability to Continue as a Going Concern

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 of February 29, 2008, the Company was in the development 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 and developing 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.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and 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. At February 29, 2008, the Company had a working capital deficiency of \$695,211, has not yet achieved profitable operations, has accumulated losses of \$28,378,922 since its inception and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate and maintain future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Significant Accounting Policies

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.

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 2 Significant Accounting Policies – (cont'd)

a) Principles of Consolidation

These financial statements include the accounts of the Company and its subsidiary, Palladon Iron Corporation (“PIC”). PIC was incorporated as a wholly-owned subsidiary in Utah on April 6, 2005 and holds the Iron Springs mineral properties. During the year ended February 28, 2006, the Company sold 50% of its interest in PIC and at February 29, 2008 held 44% (2007: 44%) of its issued shares. The Company considers that PIC is a subsidiary as the Company controls the board of directors of PIC. Subsequent to February 29, 2008, the Company purchased the other 56% interest (Note 15).

b) Equipment and Amortization

Equipment is recorded at cost. The Company provides for amortization using the following rate:

Office furniture and equipment	30% declining balance
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Additions to equipment are amortized at one-half the normal rate during the year of acquisition. Plant and equipment under construction is not amortized until construction is complete and the assets are available for use.

c) Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties and incidental sales are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Note 2 Significant Accounting Policies – (cont'd)

d) Environmental Costs

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts.

e) Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Common equivalent shares (consisting of shares issuable on the exercise of common stock options and warrants) totalling 29,713,329 (2007: 19,815,461) were not included in the computation of diluted loss per share because the effect was anti-dilutive.

f) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely-than-not that they can be realized.

g) Foreign Currency Translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from the translations are included in operations.

Note 2 Significant Accounting Policies – (cont'd)

h) Stock-based Compensation

The fair value of all share purchase options granted is expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes options valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

i) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. At February 29, 2008 and 2007, the Company did not have any asset retirement obligations.

j) Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Except as provided, management believes there has been no impairment of the Company's long-term assets at February 29, 2008.

Note 2 Significant Accounting Policies – (cont'd)

k) Adoption of New Accounting Standards

Effective March 1, 2007, the Company adopted five new Canadian Institute of Chartered Accountants (“CICA”) accounting standards: (a) Handbook Section 1530, Comprehensive Income; (b) Handbook Section 3855, Financial Instruments – Recognition and Measurement; (c) Handbook Section 3861, Financial Instruments – Disclosure and Presentation; (d) Handbook Section 3865, Hedges; and (e) Handbook Section 1506, Accounting Changes. The main requirements of these new standards and the resulting financial statement impact are described below.

Consistent with the requirements of the new accounting standards, the Company has not restated any prior period amounts as a result of adopting the accounting changes. The effect of the adoption of these standards is summarized below:

i) Comprehensive Income, Section 1530:

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative financial instruments and foreign currency gains and losses relating to self-sustaining foreign operations, all of which are not included in the calculation of net earnings until realized. The adoption of this section had no impact on accumulated comprehensive income at March 1, 2007.

ii) Financial Instruments – Recognition and Measurement, Section 3855:

This standard sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial instruments within its scope, including derivatives, to be included on the balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in either the statements of loss or the statement of comprehensive income.

All financial assets and liabilities are recognized when the Company becomes a party to the contract creating the item. As such, any of the Company’s outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect.

Note 2 Significant Accounting Policies – (cont'd)

k) Adoption of New Accounting Standards – (cont'd)

ii) Financial Instruments – Recognition and Measurement, Section 3855: – (cont'd)

All financial instruments are classified into one of the following five categories: held-for-trading, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held to maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and transaction costs are amortized into net earnings (loss), using the effective interest method.
- Available for sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized, at which time they will be recorded in net earnings (losses).
- Held for trading financial instruments are measured at fair value. All gains and losses resulting from changes in their fair value are included in the statements of operations in the period in which they arise.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses resulting from changes in their fair value are included in the statements of operations in the period in which they arise.

In accordance with this new standard, the Company has classified its financial instruments as follows:

- Cash is classified as held-for-trading which is measured at fair value.
- Amounts receivable are classified as loans and receivables. They are recorded at cost, which on initial recognition represents their fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.
- Marketable securities are classified as held-for-trading with unrealized gains and losses recorded in the determination of income (loss).
- Accounts payable and accrued liabilities are classified as other liabilities. They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

Note 2 Significant Accounting Policies – (cont'd)

k) Adoption of New Accounting Standards – (cont'd)

ii) Financial Instruments – Recognition and Measurement, Section 3855: – (cont'd)

- Loans payable are classified as other liabilities. Subsequent valuations are recorded at amortized cost using the effective interest method.
- Due to related parties are classified as other liabilities. They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

The adoption of this section required the Company to re-value its marketable securities at March 1, 2007 to their fair value of \$168,750 resulting in a decrease to opening deficit at March 1, 2007 of \$24,750. Also on adoption of this section, the Company decided to not defer transaction costs on financial liabilities. As a result, the unamortized amount of costs of \$493,919 related to a loan payable (Note 7) have been charged to opening deficit and contributed surplus at March 1, 2007. As a result of these changes, the deficit at March 1, 2007 was increased by \$469,169.

iii) Financial Instruments – Disclosure and Presentation, Section 3861:

This standard sets out standards which address the presentation of financial instruments and non-financial derivatives and identifies the related information that should be disclosed. These standards also revise the requirements for entities to provide accounting policy disclosures, including disclosure of the criteria for designating as held-for-trading those financial assets or liabilities that are not required to be classified as held-for-trading; whether categories of normal purchases and sales of financial assets are accounted for at trade date or settlement date; the accounting policy for transaction costs on financial assets and financial liabilities classified as other than held-for-trading; and provides several new requirements for disclosure about fair value.

The Company has chosen to recognize all transaction costs in the Statements of Operations on financial liabilities that have been designated as other than held for trading.

iv) Hedging, Section 3865:

This standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not hold any financial instruments designated for hedge accounting.

Note 2 Significant Accounting Policies – (cont'd)

k) Adoption of New Accounting Standards – (cont'd)

v) Accounting Changes, Section 1506:

Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable or is specified otherwise by a new accounting standard), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this new standard cannot be determined until such time as the Company makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook standards discussed in this note.

l) Recent Released Canadian Accounting Standards

Assessing Going Concern

The Canadian Accountability Standards Board (“AcSB”) AcSB amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this Section is not expected to result in any changes on the disclosure within the financial statements.

Cash Distributions

CICA Handbook Section 1540, Cash Flow Statements, has been amended to require additional disclosures where cash distributions are made in accordance with a contractual obligation for cash distributions. The revised requirements are effective for interim and annual financial statements for fiscal years ending on or after March 31, 2007. The adoption of this section is not expected to result in any changes on the disclosure within the financial statements.

Note 2 Significant Accounting Policies – (cont'd)

1) Recent Released Canadian Accounting Standards – (cont'd)

Capital Disclosures

The AcSB issued CICA Handbook Section 1535 “Capital Disclosures” The section specifies the disclosure of (i) an entity’s objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements. This new section relates to disclosures and will not have an impact on the Company’s financial results. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Goodwill and Intangible Assets

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning March 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

International financial reporting standards (“IFRS”)

In 2006, AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Note 2 Significant Accounting Policies – (cont'd)

1) Recent Released Canadian Accounting Standards – (cont'd)

Financial Instruments

CICA Handbook Section 3862, Financial Instruments - Disclosure, increases the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on the presentation of financial instruments, which have been carried forward unchanged. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company is currently evaluating the impact of the adoption of these changes on the disclosure and presentation within its financial statements.

Note 3 Equipment

	2008		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Office furniture and equipment	\$ 103,524	\$ 33,982	\$ 69,542
	2007		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Office furniture and equipment	\$ 64,046	\$ 11,765	\$ 52,281

Note 4 Reclamation Bond

The Company is obligated to provide an amount of US\$1,300,000 as security for future reclamation work on the Iron Springs property (Note 5). The Company has obtained an insurance policy to fund the balance in the event that a claim is made. The Company has deposited US\$650,000 (CDN\$636,220) (2007: CDN\$754,845) with the insurance company as additional security on the policy.

Note 5 Mineral Properties – Notes 4 and 8

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, titles to all of its properties are in good standing.

Note 5 Mineral Properties – Notes 4 and 8 – (cont'd)

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.

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.

- 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 was US\$500,000 payable over four years in six month intervals. The Company has not made any payment since the September 19, 2005 payment. Management decided not to continue with this property and during the year ended February 28, 2007 wrote off expenditures incurred totalling \$268,384.
- c) 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 is US\$5,000,000 payable by May 31, 2009.

The Company has not made any payments subsequent to November 30, 2005. Management has decided not to continue with the agreement and during the year ended February 28, 2007, the aggregate costs of \$1,070,211 incurred were written off.

- d) By an agreement signed May 2005 and amended December 15, 2005, the Company entered into an option agreement to acquire a 60% interest in property located in Argentina known as the La Sarita project. Consideration payable is US\$400,000, the issue of 750,000 common shares and incurring exploration expenditures of US\$1,500,000 over four years.

To date the Company has paid Canadian \$75,000 and has not made any payments subsequent to January 31, 2006. Management has decided not to continue with this agreement and during the year ended February 28, 2007, the aggregate costs of \$172,500 incurred were written off.

Note 5 Mineral Properties – Notes 4 and 8 – (cont'd)

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\$4,000,000 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 party could buy out the other's interest. On January 9, 2007 the optionor exercised its option to purchase the Company's interest in the Utah Copper project for US\$3,000,000 (received), a 1% net smelter royalty from copper produced from the current resource (maximum US\$10,000,000) 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 has 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, 2007, the Company issued 150,000 shares valued at \$57,000 to obtain a 100% interest in the properties. The value of the shares was determined by their market value when issued. 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\$5,000,000 over five years of which US\$1,200,000 was to be completed during calendar 2006.

Note 5 Mineral Properties – Notes 4 and 8 – (cont'd)

Utah, USA – (cont'd)

- 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\$10,000,000, of which \$50,000 was paid on signing, with \$1,300,000 as a credit at closing for the amount of the reclamation bond obligation to be assumed by the Company (Note 4), and \$8,650,000 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\$3,500,000 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.

The Company and Luxor agreed to jointly fund the Iron Springs project and during the year ended February 28, 2006 the Company transferred 50% of its interest in Palladon Iron Corporation (PIC) to Luxor for US\$3,000,000. The proceeds were applied to reduce the carrying cost of acquiring the property. Pursuant to a shareholders agreement, the parties will be issued additional shares of PIC at a pre-agreed price per share based on funding contributed. The actual percent owned by the parties may fluctuate depending on the timing of funding provided by each party, however each party had the right to maintain its 50% interest in PIC. As of February 29, 2008, the Company owned 43.8% (2007: 43.8%) of PIC. The Company controls the board of directors of PIC and manages the day to day operations of PIC and has accounted for its interest in PIC as a consolidated subsidiary. Luxor’s interest in PIC is shown as non controlling interest.

Subsequent to February 29, 2008, the Company entered into an agreement to purchase all of Luxor’s interest in PIC (Note 15).

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 holdings has been recorded at a nominal value of \$10.

Note 7 Loan Payable

Loan payable to Luxor of US\$9,452,327 (2007: US\$9,808,161), due September 24, 2010, with interest only payable quarterly at 9.25% per annum. The loan is collateralized by a promissory note, a general security agreement, the shares of PIC and a mortgage on the Murdock Railway Property (Note 6). In connection with the financing, the Company granted the lender share purchase warrants which entitled Luxor to acquire up to 2,357,137 common shares at \$0.62 per share until September 23, 2007. The value of the warrants was being amortized to interest expense on a straight-line basis over the loan term with a corresponding increase to contributed surplus. Effective March 1, 2007, the unamortized amount was charged to deficit (Note 2(k)). Those warrants expired unexercised. Subsequent to February 29, 2008, in conjunction with the purchase of Luxor's interest in PIC, the loan terms were amended to advance the due date of the loan payable to June 26, 2009 (Note 15).

Note 8 Share Capital – Notes 5, 7 and 15

Authorized:

Unlimited common shares without par value

Issued:

		<u>Number of Shares</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, February 28, 2006		31,977,109	\$ 20,287,413	\$ 1,288,971
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)	380,000
Exercise of broker options	- at \$0.50	278,602	139,301	-
Pursuant to mineral property agreements	- at \$0.38	150,000	57,000	-
Stock-based compensation		-	-	288,000
Fair value of share purchase warrants granted with loan payable – Note 7		<u>-</u>	<u>-</u>	<u>331,118</u>
Balance, February 28, 2007		47,410,208	27,183,716	2,288,089
Fair value of share purchase warrants granted with loan payable – Notes 2(k) and 7		-	-	493,919
For cash:				
Private placements	- at \$0.30	26,187,410	7,856,223	-
Less: share issue costs		564,750	(952,329)	282,375
Debt settlement	- at \$0.70	2,290,597	1,603,418	-
Escrow cancelled		(35,500)	-	-
Stock-based compensation		<u>-</u>	<u>-</u>	<u>102,000</u>
Balance, February 29, 2008		<u>76,417,465</u>	<u>\$ 35,691,028</u>	<u>\$ 3,166,383</u>

Note 8 Share Capital – Notes 5, 7 and 15 – (cont'd)

Issued: – (cont'd)

- a) During the year ended February 29, 2008, the Company issued 26,187,410 units at \$0.30 per unit for total proceeds of \$7,856,223 pursuant to a non-brokered private placement. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at \$0.50 per share for two years. The Company also paid a finder's fee of \$669,955 cash and 564,750 units with the same terms as the private placement. The agent's warrants were valued at \$282,375 as disclosed below.
- b) During the year ended February 28, 2007, the Company issued 10,000,000 units at \$0.50 per unit pursuant to a private placement. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional share at \$0.75 per share until March 31, 2008. The agent was also issued 1,000,000 units having the same terms. The agent's warrants were valued at \$380,000 as disclosed below.

During the year ended February 28, 2007, the Company issued 5,004,497 units at \$0.55 per unit. Each unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase an additional share at \$0.70 each of which 700,000 are exercisable to July 20, 2008 and 1,802,249 are exercisable to August 31, 2008.

Additional issue costs of \$672,471 were incurred with respect to the two placements.

Proceeds from the sale of units are all allocated to share capital and none to warrants.

Commitments:

Share Purchase Options

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 activity for the years ended February 29, 2008 and February 28, 2007, are summarized as follows:

Note 8 Share Capital – Notes 5, 7 and 15 – (cont'd)

Commitments: – (cont'd)

Share Purchase Options – (cont'd)

	<u>Year ended</u> <u>February 29, 2008</u>		<u>Year ended</u> <u>February 28, 2007</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 year	3,360,000	\$0.57	2,240,000	\$0.69
Granted	600,000	\$0.40	1,570,000	\$0.45
Cancelled	<u>(1,125,000)</u>	\$0.74	<u>(450,000)</u>	\$0.74
Outstanding end of year	<u>2,835,000</u>	\$0.57	<u>3,360,000</u>	\$0.57
Exercisable end of year	<u>2,835,000</u>		<u>3,360,000</u>	

As of February 29, 2008, there were 2,835,000 employee and director's share purchase options outstanding. Each option entitles the holder thereof the right to purchase one common share as follows:

<u>Number of</u> <u>Options</u>	<u>Exercise</u> <u>Price</u>	<u>Expiry Date</u>
100,000	\$0.45	September 8, 2008
50,000	\$0.80	November 26, 2008
100,000	\$0.50	October 22, 2009
300,000	\$0.75	April 21, 2010
180,000	\$0.85	August 8, 2010
125,000	\$0.75	August 29, 2010
160,000	\$0.75	November 10, 2010
1,220,000	\$0.40	December 15, 2011
<u>600,000</u>	\$0.40	November 5, 2012
<u>2,835,000</u>		

Note 8 Share Capital – Notes 5, 7 and 15 – (cont'd)

Commitments: – (cont'd)

Share Purchase Warrants

Share purchase warrant activity for the years ended February 29, 2008 and February 28, 2007, are summarized as follows:

	<u>Year ended</u> <u>February 29, 2008</u>		<u>Year ended</u> <u>February 28, 2007</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 year	15,734,063	\$0.68	3,202,322	\$0.68
Issued	13,376,080	\$0.50	12,780,851	\$0.74
Expired	<u>(2,953,212)</u>	\$0.67	<u>(249,110)</u>	\$0.86
Outstanding, end of year	<u>26,156,931</u>	\$0.62	<u>15,734,063</u>	\$0.74

At February 29, 2008, the Company had 26,156,931 share purchase warrants outstanding. Each warrant entitles the holder to purchase one common share as follows:

<u>Number</u>	<u>Exercise</u> <u>Price</u>	<u>Expiry Date</u>
10,000,000	\$0.75	March 31, 2008
278,602	\$0.75	July 13, 2008
700,000	\$0.70	July 20, 2008
1,802,249	\$0.70	August 31, 2008
<u>13,376,080</u>	\$0.50	September 11, 2009
<u>26,156,931</u>		

Agent Options:

In connection with a private placement completed during the year ended February 28, 2007, the Agents were granted an option to acquire 1,000,000 units at \$0.50 per unit up to March 31, 2008. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.75 per share up to March 31, 2008. As at February 29, 2008, there were 721,398 (2007: 721,398) agents' options outstanding. Subsequent to February 29, 2008, the options expired unexercised.

Note 8 Share Capital – Notes 5, 7 and 15 – (cont'd)

Stock-based Compensation:

During the years ended February 29, 2008 and February 28, 2007, the Company recognized charges associated with share purchase options and certain share purchase warrants granted during the year. The amount recorded for stock-based compensation expense was \$102,000 (2007: \$288,000). The Company also recorded share issue costs of \$282,375 (2007: \$380,000) as the fair value of options and warrants granted to the agents. Their fair values were determined using the Black-Scholes model with the following assumptions:

	<u>2008</u>	<u>2007</u>
Expected dividend yield	0%	0%
Expected stock price volatility	86% - 92%	86% to 92%
Risk-free interest rate	3.13% - 3.58%	3.13% to 3.58%
Expected life in years	2 – 5 years	2 – 5 years

Note 9 Related Party Transactions – Note 5

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:

	February 29, <u>2008</u>	February 28, <u>2007</u>
Gain on debt settlement	\$ (66,248)	\$ -
Legal	18,648	202,600
Management fees	15,000	75,000
Salaries and benefits	<u>404,285</u>	<u>377,677</u>
Total	<u>\$ 371,685</u>	<u>\$ 655,277</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 owing to former directors and to an affiliate of a former director and are unsecured, non-interest bearing and are due on demand.

Note 10 Income Taxes

No provision for Canadian or U.S. federal, provincial or state income taxes has been recorded. The Company is in arrears on filing its statutory income tax returns and is therefore unable to determine the amount of its loss carry-forwards at this time.

Note 10 Income Taxes – (cont'd)

The Company expects to have net operating loss carry-forwards to offset any taxable income that may exist for the years ended February 29, 2008 and February 28, 2007. As at February 29, 2008, the Company expects to have significant net operating loss carry forwards for income tax purposes available to offset future taxable income.

Future income tax assets as of February 29, 2008 and February 28, 2007 consist primarily of the tax effect of net operating loss carry-forwards and undeducted mineral properties expenditures. The Company has provided a full valuation allowance on the future income tax assets as of February 29, 2008 and February 28, 2007 to reduce such future income tax assets to \$Nil, as it is management's belief that realization of such amounts is not considered more likely-than-not.

Note 11 Financial Instruments

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 of February 29, 2008, cash totalling \$735,384 (February 28, 2007: \$106,018) was held in US dollars and \$Nil in Argentine Pesos (2007: \$1,513) and accounts receivable totalling \$13,232 (February 29, 2007: \$Nil) was held in US dollars.

Note 12 Commitments

- a) The Company has entered into a four-year lease commencing May 1, 2007 for office premises located in Salt lake City, Utah. Base rent is US\$9,048 per month in the first year increasing annually to US\$9,888 per month in the final year.
- b) The Company has entered into an agreement to supply, if requested, a minimum of 12,000 tons of iron ore per year over a four-year term ending December 31, 2011.

Note 13 Segmented Information

Geographic Information

The Company operates in one reportable operating segment, being the exploration of mineral resource properties.

	<u>Canada</u>	<u>USA</u>	<u>Argentina</u>	<u>Total</u>
Year ended February 28, 2007				
Net loss	\$ (7,151,951)	\$ (993,394)	\$ (1,554,518)	\$ (9,699,863)
Current assets	\$ 67,959	\$ 360,682	\$ 1,513	\$ 430,154
Reclamation bond	-	754,845	-	754,845
Other	-	10	-	10
Equipment	2,106	50,175	-	52,281
Mineral properties	<u>-</u>	<u>20,996,667</u>	<u>1,441,206</u>	<u>22,437,873</u>
Total assets	<u>\$ 70,065</u>	<u>\$ 22,162,379</u>	<u>\$ 1,442,719</u>	<u>\$ 23,675,163</u>
Year ended February 28, 2008				
Net loss	\$ (1,041,257)	\$ (1,145,189)	\$ (1,835,751)	\$ (4,022,197)
Current assets	\$ 855,007	\$ 192,880	\$ -	\$ 1,047,887
Reclamation bond	-	636,220	-	636,220
Other	-	10	-	10
Equipment	2,009	67,533	-	69,542
Mineral properties	<u>-</u>	<u>24,028,067</u>	<u>10</u>	<u>24,028,077</u>
Total assets	<u>\$ 857,016</u>	<u>\$ 24,924,710</u>	<u>\$ 10</u>	<u>\$ 25,781,736</u>

Note 14 Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the cash flow statements.

During the year ended February 28, 2007, the following transactions were excluded from the statement of cash flows:

- a) The Company issued 150,000 common shares valued at \$57,000 for acquisition of mineral properties. Their value was determined by their market value when issued.
- b) The Company received 450,000 shares of a related public company as proceeds on an option granted on the Company's mineral properties.

Note 14 Non-cash Transactions – (cont'd)

- c) The Company transferred 58 shares owned of PIC to the non-controlling interest in lieu of interest payments of \$688,802 required on a loan payable.
- d) The Company issued agent's options valued at \$380,000 for share issue costs.

During the year ended February 29, 2008:

- a) The Company issued 2,290,597 common shares valued at \$1,603,418 for payment of amounts due to a related party.
- b) The Company acquired equipment under construction of which \$657,528 is included in accounts payable at February 29, 2008.
- c) The Company issued 564,750 shares valued at \$169,425 and 564,750 agents' warrants valued at \$282,375 for share issue costs.
- d) Argentina expenditures of \$394,555 are included in amounts due to related parties.

Note 15 Subsequent Events

Subsequent to February 29, 2008:

- a) The Company issued a total of 4,299,613 common shares pursuant to the exercise of 250,000 share purchase options at \$0.40 per share, 150,000 share purchase options at \$0.50 per share, 3,126,000 share purchase warrants at \$0.50 per share and 773,613 share purchase warrants at \$0.70 per share.
- b) The Company issued 87,375,169 units at \$0.70 per unit pursuant to a private placement. Each unit consists of one common share and one quarter share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at \$1.00 per share for eighteen months. In connection with the placement, the Company agreed to pay a cash commission of US\$3,001,360 (of which \$610,320 will be paid by the issue of units) and the agents were issued 871,885 units having the same terms as the private placement units.
- c) The Company agreed to purchase all of Luxor's interest in PIC, consisting of 860 common shares of PIC for consideration of US\$65,000,000 of which US\$40,000,000 is payable on closing of the private placement noted above and US\$25,000,000 is deferred until twelve months from the closing including interest at 11.6% per annum. The deferred payment is collateralized by a security agreement over all of the assets of the Company, an amendment to the mortgage agreement and a share pledge agreement. In conjunction with the purchase agreement, the terms of the outstanding loan payable to Luxor (Note 7) was amended to revise the due date to the same due date as the deferred purchase consideration which is June 26, 2009.

Note 15 Subsequent Events – (cont'd)

- d) PIC entered into a contract for a term expiring March 31, 2013 to supply and deliver 2,000,000 metric tons of iron ore during each twelve months period. Under the contract terms, the ore will be delivered FOB to the Port of Long Beach, California for US\$70 per metric ton until March 31, 2009 and thereafter subject to adjustment based on the World Benchmark Price for iron ore.

Note 16 Comparative Figures

Certain comparative figures for the year ended February 28, 2007 have been reclassified to conform to the current year's presentation.