PALLADON VENTURES LTD.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2006 and 2005

A PARTNERSHIP OF INCORPORATED PROFESSIONALS

AMISANO HANSON
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders,
Palladon Ventures Ltd.

We have audited the consolidated balance sheets of Palladon Ventures Ltd. (the "Company") as at February 28, 2006 and 2005 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 28, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
June 26, 2006

"AMISANO HANSON"
Chartered Accountants

750 WEST PENDER STREET, SUITE 604
VANCOUVER CANADA
V6C 2T7

TELEPHONE: 604-689-0188
FACSIMILE: 604-689-9773
E-MAIL: amishan@telus.net

PALLADON VENTURES LTD.
CONSOLIDATED BALANCE SHEETS
February 28, 2006 and 2005

ASSETS	2006	2005
Current		
Cash	$ 1,676,346	$ 2,166,787
GST recoverable	11,283	13,840
Prepaid expenses	24,796	7,799
	1,712,425	2,188,426
Loans receivable – Note 3	-	1,715,687
Deferred finance charge	-	42,466
Equipment – Note 4	31,113	41,863
Reclamation bond – Note 5	745,940	-
Mineral properties – Note 6 and Schedule 1	29,049,254	4,718,503
	$ 31,538,732	$ 8,706,945
LIABILITIES		
Current		
Accounts payable and accrued liabilities – Note 10	$ 1,878,503	$ 154,368
Due to related party – Note 10	1,603,418	26,863
	3,481,921	181,231
Loan payable – Note 7	14,631,900	-
Convertible debentures – Note 8	-	734,250
Non-controlling interest	6,309,300	-
	24,423,121	915,481
SHAREHOLDERS' EQUITY		
Share capital – Notes 9, 10 and 13	20,208,913	16,180,041
Share subscriptions received	-	361,905
Contributed surplus – Note 9	1,173,071	542,492
Deficit	(14,266,373)	(9,292,974)
	7,115,611	7,791,464
	$ 31,538,732	$ 8,706,945

Nature and Continuance of Operations – Note 1
Commitments – Notes 5, 6 and 7
Subsequent Events – Notes 9 and 13

APPROVED BY THE DIRECTORS:

"Donald G. Foot Jr." Director
Donald G. Foot Jr

"Paul Higgins" Director
Paul Higgins

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
for the years ended February 28, 2006 and 2005

	2006	2005
General and Administrative Expenses		
Amortization	$ 12,559	$ 7,836
Bank charges	6,425	2,428
Interest	3,205,907	99,781
Investor relations	135,167	122,041
Management fees – Note 10	370,010	309,643
Office and administration	563,792	111,932
Professional fees	275,577	99,576
Rent – Note 10	108,812	61,306
Shareholder communications	108,318	90,733
Stock-based compensation – Note 9	550,700	302,287
Telephone	31,852	23,518
Transfer agent and filing fees	62,331	67,398
Travel and promotion	342,463	246,309
Loss before other	(5,773,913)	(1,544,788)
Other:		
Write-off of mineral properties – Note 6	(616,733)	(202,792)
Interest income	143,723	231,569
Gain (loss) on foreign exchange	1,273,524	(346,949)
Net loss for the year	(4,973,399)	(1,862,960)
Deficit, beginning of the year	(9,292,974)	(7,430,014)
Deficit, end of the year	$(14,266,373)	$ (9,292,974)
Basic and diluted loss per share	$ (0.17)	$ (0.08)
Weighted average number of shares outstanding	29,737,487	22,280,275

PALLADON VENTURES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended February 28, 2006 and February 29, 2005

	2006	2005
Operating Activities		
Net loss for the year	$ (4,973,399)	$ (1,862,960)
Items not involving cash:		
Accrued interest income	(133,090)	(199,118)
Amortization	12,559	7,836
Deferred charges	21,743	53,950
Shares issued for interest expense	88,332	-
Stock-based compensation and finance charges	818,080	302,287
Unrealized foreign exchange loss	-	88,429
Accrued interest payable	491,500	-
Write-off of mineral properties	616,733	202,792
	(3,057,542)	(1,406,784)
Changes in non-cash working capital items:		
GST recoverable	2557	(8,289)
Prepaid expenses	(16,997)	1,559
Accounts payable and accrued liabilities	1,232,635	22,359
Cash used in operating activities	(1,839,347)	(1,391,155)
Investing Activities		
Acquisition of capital assets	(1,809)	(49,251)
Mineral property costs	(21,983,707)	(3,745,144)
Reclamation bond	(745,940)	-
Loan receivable	-	(458,960)
Cash used in investing activities	(22,731,456)	(4,253,355)
Financing Activities		
Advances from related parties	1,576,555	(67,551)
Issuance of shares for cash	1,562,607	1,948,031
Share subscriptions	-	361,905
Loan payable	14,631,900	-
Non-controlling interest	6,309,300	-
Cash provided by financing activities	24,080,362	2,242,385
Decrease in cash during the year	(490,441)	(3,402,125)
Cash, beginning of the year	2,166,787	5,568,912
Cash, end of the year	$ 1,676,346	$ 2,166,787
Supplemental disclosure of cash flow information;		
Cash paid for:		
Interest	$ 2,714,407	$ -
Income taxes	$ -	$ -

Non-cash Transactions – Note 15

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD. Schedule 1

CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES

for the year ended February 28, 2006

	Argentina							USA			
	Gran Bajo	Laguna Guadalosa	Tres Hermanas	Rio Deseado	Taca Taca	La Sarita	Other	Utah Copper	Genisis Gold	Iron Springs	Total 2006
Balance, March 31, 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											
Shares issued	-	-	-	440,000	-	97,500	-	-	577,500	-	1,115,000
Cash paid	-	-	96,429	-	-	30,000	-	-	-	16,882,800	17,009,229
	-	-	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
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

…Cont'd

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.

Schedule 1

CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES

for the year ended February 28, 2005

	Argentina							USA			
	Choiqe La Brecha	Gran Bajo	Laguna Guadalosa	Tres Hermanas	Rio Deseado	Taca Taca	Other	Utah	Genesis Gold	Iron Springs	2005 Total
Balance beginning	$ 140,544	$ 69,102	$ 306,037	$ 225,827	$ 105,845	$ -	$102,694	$ 108,602	$ -	$ -	$ 1,058,651
Acquisition costs											
Shares issued	-	-	-	-	-	-	-	-	117,500	-	117,500
Cash paid (recovered)	-	-	-	92,264	47	262,126	(70,000)	835,718	-	125,171	1,245,326
	-	-	-	92,264	47	262,126	(70,000)	835,718	117,500	125,171	1,362,826
Exploration expenditures (recovered)											
Assays	-	-	-	-	-	-	-	122,029	-	-	122,029
Claim fees	2,859	230	306	1,607	251	10,607	(16,607)	72,851	-	-	72,104
Drilling	-	-	-	-	-	-	-	79,376	-	-	79,376
Equipment	-	-	-	-	-	-	-	275,268	-	-	275,268
Geological consulting	36,776	4,201	1,283	2,704	896	416,257	(4,849)	382,718	24,865	34,036	898,887
Field costs	5,743	-	2,616	-	9,536	43,312	-	236,721	-	-	297,928
Miscellaneous	8,817	367	1,639	1,194	2,800	60,824	(2,273)	123,603	-	-	196,971
Repairs	-	-	-	-	-	-	-	29,987	-	-	29,987
Salaries and wages	-	-	-	-	-	-	(5,858)	276,117	-	-	270,259
Supplies	-	-	-	-	-	-	-	60,724	-	-	60,724
Travel	8,053	340	979	13,607	7,073	42,334	(3,107)	127,006	-	-	196,285
	62,248	5,138	6,823	19,112	20,556	573,334	(32,694)	1,786,400	24,865	34,036	2,499,818
Write-off	(202,792)	-	-	-	-	-	-	-	-	-	(202,792)
Total	$ -	$ 74,240	$ 312,860	$ 337,203	$ 126,448	$835,460	$ -	$2,730,720	$ 142,365	$ 159,207	$ 4,718,503

SEE ACCOMPANYING NOTES

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 February 28, 2005, 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 28, 2006, the Company had a working capital deficiency of $1,769,496, has not yet achieved profitable operations, has accumulated losses of $14,266,373 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 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.

Note 2 Significant Accounting Policies – (cont'd)

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:

a) Principles of Consolidation

These financial statements include the accounts of the Company and its 50% owned 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. The Company considers that PIC is a subsidiary as the Company controls the board of directors of PIC.

b) Financial Instruments

The carrying value of the Company's financial instruments, consisting of cash, accounts payable and accrued liabilities and due to related party approximate their fair value due to the short-term maturity of such instruments. The carrying value of the loan payable also approximates fair value. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

c) Equipment and Amortization

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

Office furniture and equipment	3 year straight-line method
Computer equipment	30% declining balance
Vehicle	30% declining balance

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 in use.

d) 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 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.

Note 2 Significant Accounting Policies – (cont'd)

d) Mineral Properties – (cont'd)

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.

e) 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.

f) Basic and Diluted Loss Per Share

Basic loss per share are computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss 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 and the effect of convertible securities by the "if converted" method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

g) 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.

Note 2 Significant Accounting Policies – (cont'd)

h) 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.

i) 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 and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase option.

j) 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 28, 2006, the Company cannot reasonably estimate the fair value of the resource properties' site restoration costs, if any.

k) Deferred Finance Charges

The fair value of shares or share purchase warrants granted in connection with debt financing is deferred with a corresponding increase to contributed surplus and amortized over the expected term of the related loans. If the loan is repaid or converted to shares, the unamortized portion will be expensed or recorded as share issue costs respectively.

Note 3 Loans receivable

	2006	2005
Loan receivable of US$Nil (2005: US$800,00) with interest at 12% per annum, secured by real property located in Utah, USA, plus accrued interest of $USNil (2005:$122,564)	$ -	$ 1,137,983
Loan receivable of US$Nil (2005: US$416,266) with interest at 12% per annum, secured by real property located in Utah, USA, plus accrued interest of US$Nil (2005: US$52,078)	-	577,704
	$ -	$ 1,715,687

During the year ended February 28, 2005, the Company completed an arrangement with its joint venture partner, Western Utah Copper Company (“WUCC”), for the securitizing of the default loans payable to the Company. In that arrangement, WUCC conveyed to the Company an undivided 50% interest in certain land holdings, known as the Murdock Railroad Property, located in Beaver County, Utah. During the year ended February 28, 2006, the Company and WUCC agreed to apply the remaining amounts outstanding of US$1,500,000 against the purchase by the Company of WUCC’s interest in the Iron Springs properties.

Note 4 Equipment

	2006		
	Cost	Accumulated Amortization	Net
Office furniture and equipment	$ 6,866	$ 2,049	$ 4,817
Vehicle	44,194	17,898	26,296
	$ 51,060	$ 19,947	$ 31,113

	2005		
	Cost	Accumulated Amortization	Net
Computer equipment	$ 5,057	$ 759	$ 4,298
Vehicle	44,194	6,629	37,565
	$ 49,251	$ 7,388	$ 41,863

Note 5 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 ($745,940 (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 6 Mineral Properties – Notes 3 and 9

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

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, 2004, the Company issued to the optionor 600,000 shares at $0.30 per share and 100,000 shares at $0.30 per share for finder's fees. During the year ended February 28, 2006, a further 800,000 common shares at $0.30 per share were issued to the optionor. 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)

b) The Company had an option to acquire up to a 70% interest in approximately 8,717 hectares of mineral properties known as the Cerro Choique and La Brecha properties located in Rio Negro province, Argentina. Due to regulatory changes to certain mining regulations in Rio Negro province, the Company decided not to continue with this agreement and accordingly the aggregate costs of $202,792 incurred to February 28, 2005, have been written off.

Note 6 Mineral Properties – Notes 3 and 9 – (cont'd)

Argentina – (cont'd)

c) 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 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 subsequent to year-end)
September 19, 2006	50,000	
March 19, 2007	60,000	
September 19, 2007	80,000	
March 19, 2008	110,000	
Total	US$ 500,000	

This agreement is subject to regulatory approval.

d) 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 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	70,000	
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	2,950,000	
Total	US$5,000,000	

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.

Note 6 Mineral Properties – Notes 3 and 9 – (cont'd)

Argentina – (cont'd)

e) 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 as follows:

	Cash	Shares	Exploration Expenditures
On signing	US$ -	50,000 (issued)	US$ -
By December 23, 2005	30,000 (paid Cdn$ 30,000)	100,000 (issued)	15,460
By January 31, 2006	45,000 (paid subsequently)	-	-
By March 31, 2006	-	-	134,540
By December 3, 2006	75,000	150,000	300,000
By December 8, 2007	100,000	200,000	450,000
By December 8, 2008	150,000	250,000	600,000
Total	US$ 400,000	750,000	US$1,500,000

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. 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. The properties are subject to a 3% net smelter return royalty.

Note 6 Mineral Properties – Notes 3 and 9 – (cont'd)

Utah, USA – (cont'd)

b) – (cont'd)

Subsequent to February 28, 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) The Company completed the purchase of the Rex, Mountain Lion and Comstock Iron properties (the Iron Springs properties) on April 13, 2005 with the proceeds of an interim loan from Luxor Capital Group, LC. ("Luxor"). As at February 28, 2005, the company had paid a deposit and other fees with respect to due diligence procedures. 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.

Note 7 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 8 Convertible Debentures – Note 9

Unsecured convertible debentures payable of $734,250 with interest at 8% per annum were due November 20, 2006. As at February 28, 2006, accrued interest of $Nil (2005: $74,789) is included in accounts payable. During the year ended February 28, 2006, principal and accrued interest totalling $822,582 was converted into units of the Company at a conversion price of $0.69 per unit. Each unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one common share at $0.86 per share for two years.

During the year ended February 29, 2004, the Company issued 154,782 common shares at $0.69 per share as a finder's fee. The amount of $106,800 was deferred and was being amortized over the life of the debenture. An amount of $20,723 not yet amortized was charged to share capital upon conversion.

Note 9 Share Capital – Notes 6, 7, 8 and 13

Authorized:

Unlimited common shares without par value

Issued:

		Number of Shares	Amount
Balance, February 29, 2004		19,429,252	13,799,728
For cash:			
Pursuant to exercise of warrants	– at $0.30	3,953,520	1,186,056
	– at $0.36	504,518	181,626
	– at $0.50	166,400	83,200
	– at $0.80	60,000	48,000
	– at $0.85	26,349	22,397
Pursuant to exercise of Agent's options	– at $0.75	571,268	426,752
Pursuant to mineral property agreement	– at $0.47	250,000	117,500
Pursuant to conversion of convertible debentures	– at $0.69	498,220	343,772
Less: share issue costs		-	(28,990)
Balance, February 28, 2005		25,459,527	16,180,041
For cash:			
Pursuant to exercise of warrants	- at $0.36	328,815	118,373
	- at $0.50	1,101,280	550,640
	- at $0.80	723,666	578,933
	- at $0.85	152,986	130,038
Pursuant to conversion of convertible debentures	- at $0.69	1,192,148	822,582
Less: share issue costs		-	(20,723)
Pursuant to exercise of options	- at $0.45	200,000	90,000
	- at $0.50	290,000	145,000
	- at $0.70	250,000	175,000
	- at $0.75	100,000	75,000
	- at $0.80	50,000	40,000
Pursuant to exercise of agent's options	- at $0.75	28,562	21,422
	- at $0.85	125	106
Transfer from contributed surplus on exercise of options		-	187,501
Pursuant to mineral property agreements	- at $0.87	250,000	217,500
	- at $0.55	800,000	440,000
	- at $0.40	900,000	360,000
	- at $0.65	150,000	97,500
Balance, February 28, 2006		31,977,109	$ 20,208,913

Note 9 Share Capital – Notes 6, 7, 8 and 13 – (cont'd)

Escrow shares:

As at February 28, 2006, 37,500 (2005: 37,500) common shares are held in escrow subject to direction for their release by regulatory authorities.

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 activities for the years ended February 28, 2006 and 2005, are summarized as follows:

	Year ended February 28, 2006		Year ended February 29, 2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,590,000	$0.55	850,000	$0.51
Granted	1,135,000	$0.75	740,000	$0.59
Exercised	(500,000)	-	-	-
Expired	(250,000)	-	-	-
Outstanding and exercisable, end of year	1,975,000	$0.55	1,590,000	$0.55

As at February 28, 2006, there were 1,975,000 employee and director share purchase options outstanding. Each option entitles the holder thereof the right to purchase one common share as follows:

Number of Options	Exercise Price	Expiry Date
500,000	$0.45	September 9, 2008
100,000	$0.80	November 26, 2008
140,000	$0.50	October 22, 2009
100,000	$0.70	October 22, 2009
350,000	$0.75	April 21, 2010
625,000	$0.75	August 29, 2010
160,000	$0.75	November 10, 2010
1,975,000		

Note 9 Share Capital – Notes 6, 7, 8 and 13 – (cont'd)

Share Purchase Warrants

As at February 28, 2006, the Company had 3,202,322 share purchase warrants outstanding. Each warrant entitles the holder to purchase one common share as follows:

Number	Exercise Price	Expiry Date
249,110	$0.86	April 26, 2006
283,867	$0.86	March 5, 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
3,202,322		

Subsequent to February 28, 2006, 249,110 share purchase warrants entitling the holder to purchase shares at $0.86 per share expired unexercised.

Stock-based Compensation

During the year ended February 26, 2006, the Company recognized charges associated with share purchase options and certain share purchase warrants granted during the year. The fair value of share purchase options granted for directors, officers and employees was $550,700 (2005: $302,287). The fair value of share purchase warrants granted on the conversion of debentures was $196,705 (2005: $Nil) and the fair value of share purchase warrants granted in connection with a loan was $895,712 (2005: $Nil). The fair value was determined using the Black-Scholes model with the following assumptions:

	2006	2005
Expected dividend yield	0%	0%
Expected stock price volatility	69% to 100%	71% to 92%
Risk-free interest rate	3.42% to 3.86%	2.61% to 3.89%
Expected life in years	2 – 5 years	1 – 5 years

Note 9 Share Capital – Notes 6, 7, 8 and 13 – (cont'd)

Contributed Surplus

	2006	2005
Balance, beginning of year	$ 542,492	$ 240,205
Fair value of share purchase options granted	550,700	302,287
Fair value of share purchase warrants granted on debenture conversion	196,705	-
Fair value of share purchase warrants granted with loan payable	895,712	-
Less: value transferred on exercise of options	(187,501)	-
Less: deferred finance charge	(825,037)	-
Balance, end of year	$ 1,173,071	$ 542,492

Note 10 Related Party Transactions – Note 6

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:

	Years ended February 28, 2006	2005
Management fees	$ 370,010	$ 309,643
Rent	15,404	43,429
Total	$ 385,414	$ 353,072

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

As at February 28, 2006, accounts payable included $1,928 (2005: $55,912) owing to related parties.

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

During the year ended February 28, 2006, the Company:

- issued 500,000 common shares at $0.45-$0.80 per share to a director pursuant to share purchase options.

- issued 800,000 common shares at $0.55 per share to a company with a common director pursuant to a mineral property option agreement.

Note 11 Income Taxes

The Company is subject to federal and provincial taxes in Canada. The Company has incurred accumulated mineral property expenditure amounts of approximately $32,694,953 and non-capital losses of approximately $6,211,124 for income tax purposes, which are available for carryforward to reduce future years' taxable income. The non-capital tax losses expire as follows:

2007	$ 116,190
2008	160,675
2009	192,587
2010	193,223
2011	662,699
2015	1,453,460
2016	3,432,290
	$ 6,211,124

	2006	2005
Future income tax assets		
Net operating loss carryforwards	$ 2,173,893	$ 1,098,748
Mineral property expenditures	1,296,653	1,132,068
Equipment	6,981	2,630
Share issue costs	32,808	95,114
	3,510,335	2,328,560
Less: future income tax asset valuation allowance	(3,510,335)	(2,328,560)
Net future income tax assets	$ -	$ -

Management believes there is sufficient uncertainty regarding the realization of future income tax assets such that a full valuation allowance has been provided.

Note 12 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 at February 28, 2006, cash totalling $1,476,245 (2005: $353,831) was held in US dollars and $791 in Argentine Pesos (2005: $558,358) and loans receivable totalling $Nil (February 29, 2005: $1,715,667) were held in US dollars.

Note 13 Subsequent Events – Note 9

Subsequent to February 28, 2006:

a) The Company issued 10,000,000 units at $0.50 per unit for total proceeds of $5,000,000 pursuant to a private placement. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional share for $0.75 for a two-year period. The Company paid a commission of $800,000 plus the issue of 1,000,000 agent's warrants. The agent's warrants are convertible into 1,000,000 units at $0.50 per unit. Each unit consists of one common share and a share purchase warrant receivable on the same terms as the private placement.

b) The Company issued 157,480 common shares at $0.62 per share for total proceeds of $97,638 pursuant to the exercise of share purchase warrants.

Note 14 Segmented Information

Geographic Information

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

	Canada	USA	Argentina	Total
Year ended February 28, 2005				
Net loss	$ (1,862,960)	$ -	$ -	$ (1,862,960)
Current assets	$ 1,276,237	$ 353,831	$ 558,358	$ 2,188,426
Loans receivable	-	1,715,687	-	1,715,687
Other	42,466	-	-	42,466
Equipment	4,298	37,565	-	41,863
Mineral properties	-	3,032,292	1,686,211	4,718,503
Total assets	$ 1,323,001	$ 5,139,375	$ 2,244,569	$ 8,706,945
Year ended February 28, 2006				
Net loss	$ (4,169,992)	$ (803,407)	$ -	$ (4,973,399)
Current assets	$ 230,593	$ 1,481,041	$ 791	$ 1,712,425
Reclamation bond	-	745,940	-	745,940
Equipment	-	31,113	-	31,113
Mineral properties	-	26,521,940	2,527,314	29,049,254
Total assets	$ 230,593	$28,780,034	$ 2,528,105	$ 31,538,732

Note 15 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 29, 2006, the following transactions were excluded from the statement of cash flows:

a) The Company issued 2,100,000 common shares valued at $1,115,000 for acquisition of mineral properties.

b) The Company issued 1,192,148 common shares valued at $822,582 on the settlement of convertible debentures and accrued interest payable.

c) The Company settled a loan receivable and accrued interest receivable totalling $1,848,777 by the acquisition of an interest in mineral properties.

During the year ended February 28, 2005, the following transactions were excluded from the statement of cash flows:

a) The Company issued 250,000 shares at $0.47 per share pursuant to a mineral property acquisition agreement.

b) The Company issued 498,220 shares at $0.69 per share pursuant to the conversion of convertible debentures. Included in this transaction was $28,990 of deferred finance charges allocated to share income costs.