

PALLADON VENTURES LTD.

REPORT AND FINANCIAL STATEMENTS

February 28, 2005 and February 29, 2004

AUDITORS' REPORT

To the Shareholders,
Palladon Ventures Ltd.

We have audited the balance sheets of Palladon Ventures Ltd. (the "Company") as at February 28, 2005 and February 29, 2004 and the 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 financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2005 and February 29, 2004 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 15, 2005

"AMISANO HANSON"
Chartered Accountants

PALLADON VENTURES LTD.
BALANCE SHEETS
February 28, 2005 and February 29, 2004

	<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current			
Cash – Note 12		\$ 2,166,787	\$ 5,568,912
GST recoverable		13,840	5,551
Prepaid expenses		<u>7,799</u>	<u>9,358</u>
		2,188,426	5,583,821
Loans receivable – Notes 4 and 12		1,715,687	1,165,006
Deferred finance charge – Note 11		42,466	96,416
Equipment – Note 5		41,863	448
Mineral properties – Notes 4, 6, 8, 10, 13 and Schedule 1		<u>4,718,503</u>	<u>1,058,651</u>
		<u>\$ 8,706,945</u>	<u>\$ 7,904,342</u>

LIABILITIES

Current			
Accounts payable and accrued liabilities – Notes 8 and 11		\$ 154,368	\$ 132,009
Due to related party – Note 8		<u>26,863</u>	<u>94,414</u>
		181,231	226,423
Convertible debentures – Notes 11 and 13		<u>734,250</u>	<u>1,068,000</u>
		<u>915,481</u>	<u>1,294,423</u>

SHAREHOLDERS' EQUITY

Share capital – Notes 6, 7, 11 and 13	16,180,041	13,799,728
Share subscriptions received – Note 7	361,905	-
Contributed surplus – Note 2	542,492	14,695
Deficit – Note 2	<u>(9,292,974)</u>	<u>(7,204,504)</u>
	<u>7,791,464</u>	<u>6,609,919</u>
	<u>\$ 8,706,945</u>	<u>\$ 7,904,342</u>

Nature and Continuance of Operations – Note 1
 Commitments – Notes 6, 7, 11 and 13
 Subsequent Events – Notes 4, 6 and 13

APPROVED BY THE DIRECTORS:

“George S. Young” Director

“Allan Williams” Director

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
STATEMENTS OF OPERATIONS AND DEFICIT
for the years ended February 28, 2005 and February 29, 2004

	<u>2005</u>	<u>2004</u>
General and Administrative Expenses		
Amortization	\$ 7,836	\$ 775
Bank charges	2,428	1,142
Interest	99,781	48,174
Investor relations	122,041	-
Management fees – Note 8	309,643	184,206
Office and administration	111,932	10,397
Professional fees	99,576	110,357
Rent – Note 8	61,306	10,800
Shareholder communications	90,733	3,017
Stock-based compensation – Note 2	302,287	-
Telephone	23,518	17,253
Transfer agent and filing fees	67,398	102,102
Travel and promotion	<u>246,309</u>	<u>111,578</u>
Loss before other	(1,544,788)	(599,801)
Other:		
Write-off of mineral properties – Note 6	(202,792)	-
Interest income	231,569	17,847
Loss on foreign exchange	<u>(346,949)</u>	<u>(3,245)</u>
Net loss for the year	(1,862,960)	(585,199)
Deficit, beginning of the year	(7,204,504)	(6,619,305)
Accounting change for stock-based compensation – Note 2	<u>(225,510)</u>	<u>-</u>
Deficit, end of the year	<u>\$ (9,292,974)</u>	<u>\$ (7,204,504)</u>
Basic and diluted loss per share	<u>\$ (0.08)</u>	<u>\$ (0.08)</u>
Weighted average number of shares outstanding	<u>22,280,275</u>	<u>7,671,186</u>

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
STATEMENTS OF CASH FLOWS
for the years ended February 28, 2005 and February 29, 2004

	<u>2005</u>	<u>2004</u>
Operating Activities		
Net loss for the year	\$ (1,862,960)	\$ (585,199)
Items not involving cash:		
Accrued interest income	(199,118)	-
Amortization	7,836	775
Deferred charges	53,950	-
Shares issued for interest expense	-	22,384
Stock-based compensation	302,287	-
Unrealized foreign exchange loss	88,429	-
Write-off of mineral properties	<u>202,792</u>	<u>-</u>
	(1,406,784)	(562,040)
Changes in non-cash working capital items:		
GST recoverable	(8,289)	(1,460)
Prepaid expenses	1,559	(7,233)
Accounts payable and accrued liabilities	<u>22,359</u>	<u>17,575</u>
Cash used in operating activities	<u>(1,391,155)</u>	<u>(553,158)</u>
Investing Activities		
Acquisition of capital assets	(49,251)	-
Mineral property costs	(3,745,144)	(649,673)
Loan receivable	<u>(458,960)</u>	<u>(1,165,006)</u>
Cash used in investing activities	<u>(4,253,355)</u>	<u>(1,814,679)</u>
Financing Activities		
Advances from related parties	(67,551)	19,073
Issuance of shares for cash	1,948,031	6,840,765
Share subscriptions	361,905	-
Convertible debentures	<u>-</u>	<u>1,068,000</u>
Cash provided by financing activities	<u>2,242,385</u>	<u>7,927,838</u>
Increase (decrease) in cash during the year	(3,402,125)	5,560,001
Cash, beginning of the year	<u>5,568,912</u>	<u>8,911</u>
Cash, end of the year	<u>\$ 2,166,787</u>	<u>\$ 5,568,912</u>
Supplemental disclosure of cash flow information;		
Cash paid for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash Transactions – Note 10		

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
SCHEDULE OF MINERAL PROPERTIES
for the year ended February 28, 2005
(Unaudited)

Schedule 1

	Argentina						USA			February 28, 2005 Total	
	Choique <u>La Brecha</u>	Gran <u>Bajo</u>	Laguna <u>Guadalosa</u>	Tres <u>Hermanas</u>	Rio <u>Deseado</u>	Taca <u>Taca</u>	<u>Other</u>	<u>Utah</u>	Genesis <u>Gold</u>		Iron <u>Springs</u>
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

PALLADON VENTURES LTD.
SCHEDULE OF MINERAL PROPERTIES
for the year ended February 29, 2004

Schedule 1

	Argentina						Utah, USA	2004 Total
	Choique La Brecha	Gran Bajo	Laguna Guadalosa	Tres Hermanas	Rio Deseado	Other		
Balance beginning	\$ -	\$ -	\$ 198,978	\$ -	\$ -	\$ -	\$ -	\$ 198,978
Acquisition Costs:								
Shares issued	-	35,000	35,000	35,000	35,000	70,000	-	210,000
Cash paid	40,953	-	-	-	-	-	-	40,953
	<u>40,953</u>	<u>35,000</u>	<u>35,000</u>	<u>35,000</u>	<u>35,000</u>	<u>70,000</u>	<u>-</u>	<u>250,953</u>
Exploration expenditures								
Claim fees	30,641	14,146	33,431	68,076	27,007	16,607	83,259	273,167
Geological consulting	48,216	10,385	16,002	76,685	25,563	4,849	25,343	207,043
Field Costs	-	-	-	-	-	-	-	-
Miscellaneous	4,194	1,936	4,577	9,318	3,697	2,273	-	25,995
Salaries and wages	10,808	4,989	11,794	24,013	9,526	5,858	-	66,988
Travel	5,732	2,646	6,255	12,735	5,052	3,107	-	35,527
	<u>99,591</u>	<u>34,102</u>	<u>72,059</u>	<u>190,827</u>	<u>70,845</u>	<u>32,694</u>	<u>108,602</u>	<u>608,720</u>
Total	<u>\$ 140,544</u>	<u>\$ 69,102</u>	<u>\$ 306,037</u>	<u>\$ 225,827</u>	<u>\$ 105,845</u>	<u>\$ 102,694</u>	<u>\$ 108,602</u>	<u>\$ 1,058,651</u>

PALLADON VENTURES LTD.
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2005 and February 29, 2004

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 exploration stage and had interests in properties located in Argentina and the United States of America. The Company is listed on the TSX Venture Exchange (the “Exchange”) and the Frankfurt exchange.

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

The financial statements have been prepared using Canadian generally accepted accounting principles applicable for a going concern which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. As at February 28, 2005, the Company has not yet achieved profitable operations and has accumulated losses of \$9,292,974 since its inception. Its ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

Note 2 Change in Accounting Policy

Stock-based Compensation

Effective for fiscal years commencing on or after January 1, 2004, Canadian generally accepted accounting principles require the fair value of all share purchase options to be 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. Previously only share purchase options granted to non-employees followed this method and options granted to employees were not expensed.

Note 2 Change in Accounting Policy – (cont'd)

The Company has adopted the new policy on a retroactive basis with no restatement of prior periods. Accordingly on March 1, 2004, deficit and contributed surplus were each increased by \$225,510 to account for share purchase option expense that would have been charged to operations in 2003 and 2004 with respect to employee share purchase options granted since March 1, 2002. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models requiring 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 options.

Had the Company expensed the fair value of share purchase options in prior periods, the following pro forma amounts would have resulted:

			<u>2004</u>
Net loss	As reported	\$	(585,199)
	Pro forma	\$	(810,709)
Basic and diluted loss per share	As reported	\$	(0.03)
	Pro forma	\$	(0.05)

During the year ended February 28, 2005, the fair value of share purchase options expensed was \$302,287.

The fair value was determined using the Black-Scholes option pricing model with the following assumptions:

	<u>2005</u>	<u>2004</u>
Expected dividend yield	0.0%	0.0%
Expected volatility	70.9-92.2%	107%
Risk-free interest rate	2.61-3.8%	3.89%
Expected term in years	1-5	5
Weighted average fair value per share	\$ 0.24	\$ 0.41

Note 3 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 3 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) 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 loans receivable also approximate 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.

b) 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.

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 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 3 Significant Accounting Policies – (cont'd)

c) 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.

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 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.

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.

Note 3 Significant Accounting Policies – (cont'd)

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 4 Loans receivable

	<u>2005</u>	<u>2004</u>
Loan receivable of US\$800,000 (2004: US\$800,00) with interest at 12% per annum, secured by real property located in Utah, USA, plus accrued interest of \$US122,564 (2004:\$10,754)	\$ 1,137,983	\$ 1,082,924
Loan receivable of US\$416,266 (2004: US\$Nil) with interest at 12% per annum, secured by real property located in Utah, USA, plus accrued interest of US\$52,078 (2004: US\$Nil)	577,704	-
Loan receivable of \$Nil (US\$60,000) with interest at 12% per annum, unsecured with no payment terms, plus accrual interest of \$Nil (2004: US\$1,452)	-	82,082
	<u>\$ 1,715,687</u>	<u>\$ 1,165,006</u>

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. Subsequent to February 28, 2005, the Company and WUCC agreed to apply the remaining amounts outstanding against the purchase by the Company of WUCC’s interest in the Iron Springs properties (Note 13).

Note 5 Equipment

	2005		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Computer equipment	\$ 5,057	\$ 759	\$ 4,298
Vehicle	<u>44,194</u>	<u>6,629</u>	<u>37,565</u>
	<u>\$ 49,251</u>	<u>\$ 7,388</u>	<u>\$ 41,863</u>
	2004		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Office furniture and equipment	<u>\$ 2,130</u>	<u>\$ 1,682</u>	<u>\$ 448</u>

Note 6 Mineral Properties – Notes 4, 8 and 10

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

Argentina

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

As consideration for the option the Company issued 600,000 shares at \$0.30 per share during the year ended February 29, 2004 and is required to issue up to 1,200,000 shares (subsequent to February 28, 2005, 800,000 common shares were issued) as expenditures are completed. The Company also issued 100,000 shares at \$0.30 per share during the year ended February 29, 2004 for finder’s fees. The properties are divided into groups with exploration expenditure requirements as follows:

Note 6 Mineral Properties – Notes 4, 8 and 10 – (cont'd)

Argentina – (cont'd)

Laguna Guadaluza 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) By agreement dated July 30, 2003, the Company entered into an option agreement 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. Consideration for the first 50% is US\$30,000 (paid) and exploration expenditures on Cerro Choique of US\$30,000 by January 31, 2004 (paid) and US\$270,000 by November 30, 2004, and on La Brecha US\$40,000 by June 30, 2004 (paid) and US\$60,000 by January 31, 2005. An additional 20% can be earned by further expenditures of US\$1.9 million. A finder's fee of 75,000 shares was also to be paid. This agreement is subject to regulatory approval. Subsequent to February 28, 2005, 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.
- 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 payable is US\$500,000 payable over four years as follows:

On signing	US\$	40,000	(paid)
After six months		30,000	(paid)
After twelve months		40,000	(paid subsequent to year-end)
After eighteen months		40,000	
After twenty-four months		50,000	
After thirty months		50,000	
After thirty-six months		60,000	
After forty-two months		80,000	
After forty-eight months		<u>110,000</u>	
Total		<u>US\$ 500,000</u>	

This agreement is subject to regulatory approval.

Note 6 Mineral Properties – Notes 4, 8 and 10 – (cont'd)

Argentina – (cont'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 payable is US\$5,000,000 payable from the agreement date as follows:

On signing		
Five days	US\$ 100,000	(paid)
Six months	100,000	(paid)
Twelve months	100,000	
Eighteen months	150,000	
Twenty-four months	200,000	
Thirty months	250,000	
Thirty-six months	300,000	
Forty-two months	350,000	
Forty-eight months	500,000	
Sixty months	<u>2,950,000</u>	
Total	<u>US\$5,000,000</u>	

The agreement is subject to regulatory approval. The optionor has agreed to extend the US\$100,000, due after twelve months, to US\$30,000 due by July 10, 2005 and US\$70,000 due by August 1, 2005.

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. Subsequent to February 28, 2005, the Company issued 250,000 common shares 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 4, 8 and 10 – (cont'd)

Utah, USA – (cont'd)

- c) During the year ended February 28, 2005, the Company paid a deposit and extension fee and incurred consulting costs with respect to due diligence procedures on the Iron Springs properties, the purchase of which was completed subsequent to February 28, 2005.

Note 7 Share Capital – Notes 6, 11 and 13

Authorized:
Unlimited common shares without par value

Issued:

		<u>Number of Shares</u>	<u>Amount</u>
Balance, February 28, 2003		4,000,244	\$ 6,630,163
For cash:			
– pursuant to exercise of warrants	– at \$0.25	235,000	58,750
	– at \$0.30	261,500	78,450
– pursuant to private placements	– at \$0.25	4,626,000	1,156,500
	– at \$0.70	7,959,178	5,571,425
– brokerage firm shares		399,215	-
Less: share issue costs		-	(400,472)
– pursuant to private placements	– at \$0.27	833,333	222,900
	– at \$0.70	220,000	153,212
Pursuant to mineral property option agreement	– at \$0.30	600,000	180,000
Pursuant to loan agreement	– at \$0.30	40,000	12,000
Pursuant to mineral property agreement	– at \$0.30	100,000	30,000
Pursuant to convertible debenture finder's fee	– at \$0.69	<u>154,782</u>	<u>106,800</u>
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		<u>-</u>	<u>(28,990)</u>
Balance, February 28, 2005		<u>25,459,527</u>	<u>\$ 16,180,041</u>

Note 7 Share Capital – Notes 6, 11 and 13 – (cont'd)

Escrow shares:

As at February 28, 2005, 37,500 (February 29, 2004: 37,500) common shares are held in escrow subject to direction for their release by regulatory authorities.

Commitments:

Stock-based compensation

The Company may grant share purchase options to directors, officers or employees to acquire shares of the Company. Unless otherwise noted, the share purchase options vest when granted. Share purchase option activities for the years ended February 28, 2005 and ended February 29, 2004 are summarized as follows:

	Year ended February 28, 2005		Year ended February 29, 2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	850,000	\$0.51	-	-
Granted	140,000	\$0.50	* 700,000	\$0.45
Granted	350,000	\$0.70	150,000	\$0.80
Granted	<u>250,000</u>	\$0.50	<u>-</u>	-
Outstanding, end of year	<u>1,590,000</u>	\$0.55	<u>850,000</u>	\$0.51
Exercisable, end of year	<u>1,590,000</u>		<u>500,000</u>	

* These options vested as to 25% upon granting, 50% after six months, 25% after nine months and 100% after twelve months.

As at February 28, 2005, there were 1,590,000 employee and director share purchase options outstanding. Each option entitles the holder thereof the right to purchase one common share as follows:

Note 7 Share Capital – Notes 6, 11 and 13 – (cont'd)

Commitments: – (cont'd)

Stock-based compensation – (cont'd)

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
250,000	\$0.50	January 26, 2006
700,000	\$0.45	September 9, 2008
150,000	\$0.80	November 26, 2008
140,000	\$0.50	October 22, 2009
<u>350,000</u>	\$0.70	October 22, 2009
<u>1,590,000</u>		

Share Purchase Warrants

As at February 28, 2005, the Company had 6,261,186 share purchase warrants outstanding. Each warrant entitles the holder to purchase one common share as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
44,860	\$0.50	September 12, 2005
328,815	\$0.36	September 29, 2005
1,244,920	\$0.50	July 31, 2005
3,984,588	\$0.80	February 27, 2006
408,893	\$0.85	February 27, 2006
<u>249,110</u>	\$0.86	April 26, 2006
<u>6,261,186</u>		

As at February 28, 2005, the Company had received share subscriptions totalling \$361,905 in respect to warrants exercised after February 28, 2005 for 452,381 shares at \$0.80 per share.

Agent's Options

In connection with a private placement completed during the year ended February 29, 2004, the Agent was granted the option to acquire 1,193,876 units at \$0.75 per unit up to February 27, 2006. Each unit consists of one share and one-half share purchase warrant. Each warrant is exercisable at \$0.85 per share until February 27, 2006. As at February 28, 2005, 622,608 agent's options were outstanding.

Note 8 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, <u>2005</u>	February 29, <u>2004</u>
Management fees	\$ 309,643	184,206
Rent	<u>43,429</u>	<u>10,800</u>
Total	<u>\$ 353,072</u>	<u>\$ 195,006</u>

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

As at February 28, 2005, accounts payable included \$55,912 (February 29, 2004: \$9,243) owing to related parties.

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

Note 9 Income Taxes

The Company is subject to federal and provincial taxes in Canada. The Company has estimated accumulated mineral property expenditure amounts of \$7,747,469 and non-capital losses of approximately \$3,086,372 for income tax purposes, which are available for carryforward to reduce future years' taxable income. The non-capital tax losses expire as follows:

2006	\$ 307,538
2007	116,190
2008	160,675
2009	192,587
2010	193,223
2011	662,699
2015	<u>1,453,460</u>
	<u>\$ 3,086,372</u>

Note 9 Income Taxes – (cont'd)

	<u>2005</u>	<u>2004</u>
Future income tax assets		
Net operating loss carryforwards	\$ 1,098,748	\$ 853,651
Mineral property expenditures	1,132,068	358,961
Equipment	2,630	1,281
Share issue costs	<u>95,114</u>	<u>116,780</u>
	2,328,560	1,330,673
Less: future income tax asset valuation allowance	<u>(2,328,560)</u>	<u>(1,330,673)</u>
Net future income tax assets	<u>\$ _____</u>	<u>\$ _____</u>

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

Note 10 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, 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.

During the year ended February 29, 2004, the following transactions were excluded from the statement of cash flows:

- a) The Company issued 399,215 common shares pursuant to brokered private placement share issuance costs.
- b) The Company issued 154,782 common shares at \$0.69 per share as a finder's fees for the convertible debentures.
- c) The Company issued 700,000 common shares at \$0.30 per share for acquisition of mineral properties.
- d) The Company issued 40,000 common shares at \$0.30 per share related to a loan agreement.

Note 11 Convertible Debentures – Notes 7 and 10

Convertible debentures payable of \$734,250 with interest at 8% per annum due November 20, 2006 are unsecured. As at February 28, 2005, accrued interest of \$74,789 is included in accounts payable (February 29, 2004: \$9,571). The principal amount and accrued interest outstanding can be converted into units at a conversion price of \$0.69 per unit if converted by November 20, 2005 or \$0.76 per unit if converted before November 20, 2006. Each unit will consist of one common share and one-half share purchase warrant. Each whole warrant will entitle the holder to purchase one common share at \$0.86 per share for two years.

The Company issued 154,782 common shares at \$0.69 per share as a finder's fee. The amount of \$106,800 has been deferred and is being amortized over the life of the debenture. Amounts not yet amortized will be charged to share capital upon conversion.

Note 12 Financial Instruments

a) Credit risk:

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

b) Foreign currency risk:

The Company is exposed to fluctuations in foreign currencies through its operations in the United States and Argentina. The Company monitors this exposure, but has no hedge positions. As at February 28, 2005, cash totalling \$353,831 (February 29, 2004: \$83,612) was held in US dollars and \$558,358 in Argentine Pesos (February 29, 2004: \$Nil) and loans receivable totalling \$1,715,687 (February 29, 2004: \$1,165,006) were held in US dollars.

Note 13 Subsequent Events – Notes 4, 6 and 8

Subsequent to February 28, 2005:

- a) The Company issued 1,268,365 common shares at prices of \$0.36 to \$0.85 per share for total proceeds of \$842,166 pursuant to the exercise of warrants.
- b) The Company issued 40,000 common shares at \$0.50 per share for total proceeds of \$20,000 pursuant to the exercise of share purchase options.
- c) The Company issued 28,000 common shares at \$0.75 per share for total proceeds of \$21,000 pursuant to the exercise of Agent's options.

Note 13 Subsequent Events – Notes 4, 6 and 8 – (cont'd)

- d) The Company issued 567,734 common shares at \$0.69 per share pursuant to the conversion of convertible debentures.
- e) The Company granted 350,000 share purchase options to directors and employees of the Company. Each option will allow the holder to purchase one common share at \$0.75 per share for a period of 5 years.
- f) The Company closed 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”). The Iron Springs property contains approximately 2,560 hectares of net mineral and surface acres, including 162 hectares of irrigated farmland valuable principally for its water rights. This landholding covers all of the Comstock / Mountain Lion deposit, and most of the Rex deposit. 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, 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 provides that the Company shall have a 65 % interest in the property, and WUCC shall have a 35 % interest. The parties subsequently negotiated for the buyout of WUCC’s interest for US\$3.5 million plus the forgiveness of approximately US\$1.2 million in loans receivable (Note 4) previously made by the Company to WUCC.

The interim loan bears interest at 20% per annum, with \$1,000,000 interest prepaid at date of the loan, and is due the earlier of the closing date of a convertible debenture or October 13, 2005. The convertible debenture is to be issued to Luxor for US\$13 million, which amount would include US\$2 million toward the \$3.5 million cash component of the purchase price of the interest of WUCC. As a part of the refinancing transaction, Luxor will also take a 50% equity interest in the project, to be held in the name of Palladon Iron Corporation (“PIC”), a new subsidiary of the Company incorporated in Utah on April 12, 2005. The interim loan is secured by a promissory note, a general security agreement, the shares of PIC and a mortgage on the Murdock Railroad property (Note 4).

The convertible debenture will bear interest at 5% per annum with a term of five years and will be guaranteed by PIC. The debenture and accrued interest are convertible at the option of the holder into a maximum of 17,700,000 common shares at \$0.90 per share and a maximum of 7,800,000 share purchase warrants. Each warrant will entitle the holder to purchase one common share at \$0.99 per share for a period of two years. The Company may force conversion in the event that the market price of the Company’s shares exceeds \$1.35 per share for twenty consecutive days.

Note 13 Subsequent Events – Notes 4, 6 and 8 – (cont'd)

f) (cont'd)

The buyout of WUCC's interest, the sale of the 50% interest to Luxor and the terms of the convertible debenture are subject to shareholder and regulatory approval.

The Company had previously completed an arrangement with WUCC for the securitizing of the US\$1.2 million loans payable to the Company (Note 4). In that arrangement, WUCC conveyed to the Company an undivided 50% interest in its Murdock Railroad Property. In connection with the buyout of WUCC's interest in the Iron Springs property and the loan forgiveness, the Company will retain its 50% interest in the Murdock Railroad Property.

- g) By an agreement signed May 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 exploration expenditures of US\$1,500,000 over four years as follows:

	<u>Cash</u>	<u>Shares</u>	<u>Exploration Expenditures</u>
On signing	US\$ -	50,000	US\$ -
By first anniversary	75,000	100,000	150,000
By second anniversary	75,000	150,000	300,000
By third anniversary	100,000	200,000	450,000
By fourth anniversary	<u>150,000</u>	<u>250,000</u>	<u>600,000</u>
Total	<u>US\$ 400,000</u>	<u>750,000</u>	<u>US\$1,500,000</u>

The agreement is subject to regulatory approval.

Note 14 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, 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	<u>-</u>	<u>3,032,292</u>	<u>1,686,211</u>	<u>4,718,503</u>
Total assets	<u>\$ 1,323,001</u>	<u>\$ 5,139,375</u>	<u>\$ 2,244,569</u>	<u>\$ 8,706,945</u>
Year ended February 29, 2004				
Net loss	\$ (585,199)	\$ -	\$ -	\$ (585,199)
Current assets	\$ 5,500,209	\$ 83,612	\$ -	\$ 5,583,821
Loans receivable	-	1,165,006	-	1,165,006
Other	96,416	-	-	96,416
Equipment	448	-	-	448
Mineral properties	<u>-</u>	<u>108,602</u>	<u>950,049</u>	<u>1,058,651</u>
Total assets	<u>\$ 5,597,073</u>	<u>\$ 1,357,220</u>	<u>\$ 950,049</u>	<u>\$ 7,904,342</u>