

**PALLADON VENTURES LTD.**

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FIRST QUARTER ENDED MAY 31, 2005 AND MAY 31, 2004

**PALLADON VENTURES LTD.**

*Notice of No Auditor Review of Interim Consolidated Financial Statements*

Under *National Instrument 51-102, Part 4, subsection 4.3 (3)(a)*, if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the company have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**"George S. Young"**  
**Chief Executive Officer**

July 29, 2005

**PALLADON VENTURES LTD.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
MAY 31, 2005 AND FEBRUARY 28, 2005

	<u>ASSETS</u>	<u>May 31, 2005</u>	<u>Feb. 28, 2005</u>
Current			
Cash – Note 13		\$ 1,670,205	\$ 2,166,787
GST recoverable		17,854	13,840
Prepaid expenses		<u>4,537</u>	<u>7,799</u>
		1,692,596	2,188,426
Loans receivable – Notes 3 and 6		-	1,715,687
Deferred finance charge		1,594	42,466
Equipment – Note 4		38,724	41,863
Reclamation Bond – Note 5		815,880	-
Mineral properties – Notes 5, 6, 7 and Schedule 1		<u>24,137,785</u>	<u>4,718,503</u>
		<u>\$ 26,686,579</u>	<u>\$ 8,706,945</u>
 <b><u>LIABILITIES</u></b>  			
Current			
Accounts payable and accrued liabilities – Note 9		\$ 310,956	\$ 154,368
Bridge loan payable – Notes 6 and 7		12,928,560	-
Loan payable – Western Utah Copper Company – Note 7		4,393,200	-
Due to related party – Note 9		<u>23,328</u>	<u>26,863</u>
		17,656,044	181,231
Convertible debentures – Note 12		<u>378,250</u>	<u>734,250</u>
		<u>18,034,294</u>	<u>915,481</u>
 <b><u>SHAREHOLDERS' EQUITY</u></b>  			
Share capital – Notes 5, 6, 8, 11 and 12		18,047,605	16,180,041
Share subscriptions received – Note 8		-	361,905
Contributed surplus – Note 2		710,492	542,492
Deficit – Note 2		<u>(10,105,812)</u>	<u>(9,292,974)</u>
		<u>8,652,285</u>	<u>7,791,464</u>
		<u>\$ 26,686,579</u>	<u>\$ 8,706,945</u>
Nature and Continuance of Operations – Note 1			
Commitments – Notes 5, 6, 7 and 8			
Subsequent Events – Note 14			

APPROVED BY THE DIRECTORS:

“George S. Young” Director

“Allan Williams” Director

SEE ACCOMPANYING NOTES

**PALLADON VENTURES LTD.**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**FOR THE THREE MONTHS ENDED MAY 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
General and Administrative Expenses		
Amortization	\$ 3,139	\$ 1,819
Bank charges	709	319
Interest	27,775	38,356
Investor relations	48,201	90,746
Management fees	120,514	140,428
Office and administration	53,984	2,939
Professional fees	110,012	18,768
Rent	22,054	1,200
Shareholder communications	44,658	-
Stock-based compensation	175,000	-
Telephone	9,038	4,032
Transfer agent and filing fees	15,561	12,325
Travel and promotion	<u>93,438</u>	<u>76,154</u>
Loss before other	(724,083)	(387,086)
Other:		
Interest income	89,676	69,637
Gain (loss) on foreign exchange	<u>(178,431)</u>	<u>121,001</u>
Net loss for the period	(812,838)	(196,448)
Deficit, beginning of the period	<u>(9,292,974)</u>	<u>(7,430,014)</u>
Deficit, end of the period	<u>\$ (10,105,812)</u>	<u>\$ (7,626,462)</u>
Basic and diluted loss per share	<u>\$ (0.37)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding	<u>27,182,703</u>	<u>19,847,612</u>

SEE ACCOMPANYING NOTES

**PALLADON VENTURES LTD.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MAY 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating Activities		
Net loss for the period	\$ (812,838)	\$ ( 196,448.)
Items not involving cash:		
Accrued interest income	-	-
Amortization	3,139	1,819
Deferred charges	20,149	35,921
Shares issued for interest expense	35,736	-
Stock-based compensation	175,000	-
Unrealized foreign exchange loss	<u>241,960</u>	<u>( 94,096)</u>
	(336,854)	( 252,084)
Changes in non-cash working capital items:		
GST recoverable	( 4,014)	( 3,600)
Prepaid expenses	3,262	4,727
Accounts payable and accrued liabilities	<u>156,588</u>	<u>( 23,667)</u>
Cash used in operating activities	<u>(181,018)</u>	<u>( 275,344)</u>
Investing Activities		
Acquisition of capital assets	-	( 44,194)
Mineral property costs	(18,761,782)	(1,287,439)
Reclamation bond	( 803,920)	-
Loan receivable	<u>1,715,687</u>	<u>( 594,805)</u>
Cash used in investing activities	<u>(17,850,015)</u>	<u>(1,926,438)</u>
Financing Activities		
Advances from (to) related parties	( 3,535)	( 33,800)
Bridge loan payable	12,739,040	-
Loan payable – Western Utah Copper Company	4,328,800	-
Issuance of shares for cash	<u>470,146</u>	<u>82,582</u>
Cash provided by financing activities	<u>17,534,451</u>	<u>( 48,782)</u>
Decrease in cash during the period	( 496,582)	( 546,023)
Cash, beginning of the period	<u>2,166,787</u>	<u>5,568,912</u>
Cash, end of the period	<u>\$ 1,670,205</u>	<u>\$ 3,415,912</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	<u>\$ 342,034</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash Transactions – Note 11		

SEE ACCOMPANYING NOTES

**PALLADON VENTURES LTD.**  
**SCHEDULE OF MINERAL PROPERTIES**  
**FOR THE THREE MONTHS ENDED MAY 31, 2005**

Schedule 1

	Argentina					USA			May 31, 2005 Total	
	Gran Bajo	Laguna Guadalosa	Tres Hermanas	Rio Deseado	Taca Taca	Other	Utah	Genesis Gold		Iron Springs
Balance beginning	\$ 74,240	\$ 312,860	\$ 337,203	\$ 126,448	\$ 835,460	\$ -	\$ 2,730,720	\$ 142,365	\$ 159,207	\$ 4,718,503
Acquisition costs										
Shares issued	-	-	-	440,000	-	-	-	217,500	-	657,500
Cash paid (recovered)	-	-	-	-	-	-	-	-	18,119,121	18,119,121
	-	-	-	440,000	-	-	-	217,500	18,119,121	18,776,621
Exploration expenditures (recovered)										
Claim fees	-	-	49,890	-	-	4,308	23,359	-	-	77,557
Equipment	-	-	-	-	-	-	-	77,728	15,931	93,659
Geological consulting	-	-	14,668	-	30,042	33,878	-	28,819	26,391	133,798
Field costs	-	47	5,367	-	4,073	-	100,231	-	98,872	208,590
Miscellaneous	-	-	690	26	175	6,436	-	-	5,143	12,470
Salaries and wages	-	-	647	-	-	16,795	-	77,680	-	95,122
Travel	-	-	4,268	-	3,788	13,409	-	-	-	21,465
	-	47	75,530	-	38,078	74,826	123,590	184,227	146,337	642,661
<b>Total</b>	<b>\$ 74,240</b>	<b>\$ 312,907</b>	<b>\$ 412,733</b>	<b>\$ 566,474</b>	<b>\$ 873,538</b>	<b>\$ 74,826</b>	<b>\$ 2,854,310</b>	<b>\$ 544,092</b>	<b>\$18,424,665</b>	<b>\$24,137,785</b>

**PALLADON VENTURES LTD.**  
**SCHEDULE OF MINERAL PROPERTIES**  
**FOR THE YEAR ENDED FEBRUARY 28, 2005**

Schedule 1

	Argentina						USA			February	
	<u>Choique La Brecha</u>	<u>Gran Bajo</u>	<u>Laguna Guadalosa</u>	<u>Tres Hermanas</u>	<u>Rio Deseado</u>	<u>Taca Taca</u>	<u>Other</u>	<u>Utah</u>	<u>Genesis Gold</u>	<u>Iron Springs</u>	<u>28, 2005 Total</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.**  
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2005 AND FEBRUARY 28, 2005

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 May 31, 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 May 31, 2005, the Company has not yet achieved profitable operations and has accumulated losses of \$10,105,812 since its inception. Its ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

Note 2 Significant Accounting Policies

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:

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

Note 2     Significant Accounting Policies – (cont'd)

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. 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.

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 loss per share reflects 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.

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.

PALLADON VENTURES LTD.  
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
 MAY 31, 2005 AND FEBRUARY 28, 2005 – PAGE 4

Note 2 Significant Accounting Policies – (cont'd)

h) Consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiary Palladon Iron Corporation. All material intercompany transactions and balances have been eliminated.

Note 3 Loans receivable

The Company had loans receivable at February 28, 2005 from its joint venture partner, Western Utah Copper Company (“WUCC”). As part of the transaction of the acquisition of the Iron Springs properties (Note 5, the Company purchased the WUCC interest in the Iron Springs properties and an undivided 50% interest in certain land holdings, known as the Murdock Railroad Property, located in Beaver County, Utah. At the time of the transactions, 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 5).

Note 4 Equipment

	May 31, 2005		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Computer equipment	\$ 5,057	\$ 1,081	\$ 3,976
Vehicle	<u>44,194</u>	<u>9,446</u>	<u>34,748</u>
	<u>\$ 49,251</u>	<u>\$ 10,527</u>	<u>\$ 38,724</u>
	February 28, 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>

Note 5      Mineral Properties

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

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, 800,000 common shares during the quarter ended May 31, 2005 and is required to issue up to 400,000 shares as expenditures are completed. The Company also issued 100,000 shares at \$0.30 per share during the year ended February 29, 2004 for finder’s fees. The properties are divided into groups with exploration expenditure requirements as follows:

Laguna Guadalosa Property Group

- US\$30,000 on or before March 31, 2003 (paid);
- An additional US\$270,000 on or before March 31, 2004 (paid)

All other properties (Gran Bajo, Tres Hermanas, Rio Desado and Other)

- US\$40,000 on or before April 30, 2003 (paid)
- An additional US\$160,000 on or before March 31, 2004 (paid)

PALLADON VENTURES LTD.  
 NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
 MAY 31, 2005 AND FEBRUARY 28, 2005 – PAGE 6

Note 5 Mineral Properties – (cont'd)

- b) By agreement dated March 19, 2004, the Company entered into an option agreement to acquire a 100% interest in approximately 830 hectares known as the Rodino property located in Argentina, adjacent to the Tres Hermanas property. Consideration payable is US\$500,000 payable over four years as follows:

On signing	US\$ 40,000	(paid)
After six months	30,000	(paid)
After twelve months	40,000	(paid)
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.

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.

Note 5 Mineral Properties – (cont'd)

Utah, USA

- a) The Company has entered into an option agreement dated November 20, 2003 to acquire a 50% interest in approximately 40,000 acres of mineral rights located in Beaver County, Utah. As consideration the Company will update and finalize a feasibility study and expend up to US\$4,000,000 over five years with a minimum of US\$800,000 (paid) to be spent in the first year. Any property in the new exploration areas in which a feasibility study has been completed, the Company shall have the right to a 65% interest.
- b) On May 7, 2004, the Company entered into an option agreement for the right to acquire a 100% interest in five mineral exploration properties covering 5,480 acres in Utah and Nevada in consideration for 250,000 common shares (issued) and a further 1,300,000 shares in stages on or before the third anniversary. During the quarter ended May 31, 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.
- 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 was completed on April 13, 2005 with the proceeds of an interim loan from Luxor Capital Group, LC. (“Luxor”). The Iron Springs properties consist of the Rex, Mountain Lion and Comstock Iron properties. 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 for a 65% interest, 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 provided 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\$5 million to be paid by the forgiveness of US\$1.5 million in loans receivable (Note 3) previously made by the Company to WUCC and a loan payable of US\$3.5 million. Completion of these two purchases gives the Company a 100% interest in these properties (see also Note 6).

The Company posted a US\$650,000 reclamation bond with a surety company. This posting with the surety company provides the company with the necessary US\$1.3 million bond that it is required to have in place.

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MAY 31, 2005 AND FEBRUARY 28, 2005 – PAGE 8

Note 6      Bridge Loan Payable

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 prepaid interest has been capitalized to the property. 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 5).

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.

The purchase of the property is subject to regulatory and shareholder approval, neither of which has been obtained.

Note 7      Loan Payable – Western Utah Copper Company

The loan payable to WUCC is non-interest bearing and is repayable out of the Luxor financing (Note 6). If the company is unable to repay the loan, it must convey a 35% interest in the property back to WUCC. Subsequent to May 31, 2005, the Company repaid \$600,000 of this loan.

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Note 8 Share Capital

Authorized:  
Unlimited common shares without par value

Issued:

		<u>Number of Shares</u>	<u>Amount</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		25,459,527	\$ 16,180,041
For cash:			
Pursuant to exercise of warrants	– at \$0.36	250,500	90,180
	– at \$0.50	95,000	47,500
	– at \$0.80	666,666	533,333
	– at \$0.85	152,986	130,038
Pursuant to conversion of convertible debentures			
	– at \$0.69	567,734	391,736
Less: share issue costs		-	( 20,723)
Pursuant to exercise of options	– at \$0.50	20,000	10,000
Add: fair value of options		-	7,000
Pursuant to exercise of Agent’s options	– at \$0.75	28,000	21,000
Pursuant to mineral property agreement	– at \$0.87	250,000	217,500
Pursuant to mineral property agreement	– at \$0.55	<u>800,000</u>	<u>440,000</u>
Balance, May 31, 2005		<u>28,290,413</u>	<u>\$ 18,047,605</u>

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Note 8 Share Capital – (cont'd)

Escrow shares:

As at May 31, 2005, 37,500 (February 28, 2005: 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 three months ended May 31, 2005 and the year ended February 28, 2005 are summarized as follows:

	Year ended May 31, 2005		Year ended February 29, 2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	1,590,000	\$0.55	850,000	\$0.51
Granted	350,000	\$0.75	140,000	\$0.50
Exercised	(20,000)	\$0.50	350,000	\$0.70
Granted			<u>250,000</u>	\$0.50
Outstanding, end of period	<u>1,920,000</u>	\$0.59	<u>1,590,000</u>	\$0.55
Exercisable, end of period	<u>1,920,000</u>		<u>1,590,000</u>	

As at May 31, 2005, there were 1,920,000 employee and director share purchase options outstanding. Each option entitles the holder thereof the right to purchase one common share as follows:

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Note 8 Share Capital – (cont'd)

Commitments: – (cont'd)

Stock-based compensation – (cont'd)

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
230,000	\$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
350,000	\$0.70	October 22, 2009
<u>350,000</u>	\$0.75	April 21, 2010
<u>1,590,000</u>		

Share Purchase Warrants

As at May 31, 2005, the Company had 5,393,301 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
78,315	\$0.36	September 29, 2005
1,149,920	\$0.50	July 31, 2005
3,317,922	\$0.80	February 27, 2006
269,907	\$0.85	February 27, 2006
249,110	\$0.86	April 26, 2006
<u>283,867</u>	\$0.86	March 15, 2007
<u>5,393,301</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. These shares were issued during the quarter ended May 31, 2005.

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Note 8 Share Capital – (cont'd)

Commitments: – (cont'd)

Stock-based compensation – (cont'd)

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. During the quarter ended May 31, 2005, 28,000 units were acquired by the agent, leaving 594,608 agent's options outstanding at May 31, 2005.

Note 9 Related Party Transactions

The Company incurred the following transactions with related parties consisting of current and/or former directors of the Company or private companies controlled by them:

	Three Months Ended	
	May 31, <u>2005</u>	May 31, <u>2004</u>
Management fees	\$ 120,514	140,428
Rent	<u>12,323</u>	<u>1,200</u>
Total	<u>\$ 132,837</u>	<u>\$ 141,628</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 \$90,336 (February 28, 2005: \$55,912) owing to related parties.

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

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Note 10 Income Taxes

The Company is subject to federal and provincial taxes in Canada. The Company has estimated accumulated mineral property expenditure amounts of \$27,166,751 and non-capital losses of approximately \$3,721,070 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	1,453,460
2016	<u>634,698</u>
	<u>\$ 3,721,070</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 11 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 three months ended May 31, 2005, the following transactions were excluded from the statement of cash flows:

- a) The Company issued 250,000 shares at \$0.87 per share and 800,000 shares at \$0.55 per share pursuant to mineral property acquisition agreements and
- b) The Company issued 567,734 shares at \$0.69 per share pursuant to the conversion of convertible debentures. Included in this transaction was \$20,723 of deferred finance charges allocated to share issue costs.

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Note 12 Convertible Debentures

Convertible debentures payable of \$378,250 (February 28, 2005: \$734,250) with interest at 8% per annum due November 20, 2006 are unsecured. As at May 31, 2005, accrued interest of \$46,260 is included in accounts payable (February 28, 2005: \$74,789). 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 13 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 May 31, 2005, cash totalling \$450,931 (February 28, 2005: \$353,831) was held in US dollars and \$502,241 in Argentine Pesos (February 28, 2005: \$558,358) and loans receivable totalling \$Nil (February 28, 2005: \$1,715,687) were held in US dollars.

Note 14 Subsequent Events

Subsequent to May 31, 2005:

- a) The Company issued 1,093,235 common shares at prices of \$0.36 to \$0.50 per share for total proceeds of \$535,653 pursuant to the exercise of warrants.
- b) The Company's Annual General Meeting was adjourned and rescheduled for August 2005 due to an error in proxy solicitation. Accordingly, the USA mineral property acquisitions referred to in Notes 5, 6 and 7 have not yet received shareholder and /or regulatory approval.

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Note 14 Subsequent Events – (cont'd)

- c) 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 and no payments have been made to date.

- d) The Company is pleased to advise that it has entered into an agreement to supply one million tonnes of processed ore from the Iron Springs property. Full details of this contract will be the subject of a press release within the next few days.