

PALLADON VENTURES LTD.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED AUGUST 31, 2005

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

November 16, 2005

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

	<u>ASSETS</u>	<u>August 31, 2005</u>	<u>Feb. 28, 2005</u>
Current			
Cash – Note 13		\$ 398,627	\$ 2,166,787
Accounts receivable		36,670	13,840
Prepaid expenses		<u>-</u>	<u>7,799</u>
		435,297	2,188,426
Loans receivable – Notes 3 and 6		-	1,715,687
Deferred finance charge		-	42,466
Equipment – Note 4		35,584	41,863
Reclamation Bond – Note 5		765,635	-
Mineral properties – Notes 5, 6, 7 and Schedule 1		<u>27,211,535</u>	<u>4,718,503</u>
		<u><u>\$ 28,448,051</u></u>	<u><u>\$ 8,706,945</u></u>

LIABILITIES

Current			
Accounts payable and accrued liabilities		\$ 259,798	\$ 154,368
Bridge loan payable – Notes 6 and 7		12,450,116	-
Obligation payable – Western Utah Copper Company - Note 7		4,122,650	-
Due to related party – Note 9		<u>1,358,371</u>	<u>26,863</u>
		18,190,935	181,231
Convertible debentures – Note 12		<u>148,947</u>	<u>734,250</u>
		<u>18,339,882</u>	<u>915,481</u>

SHAREHOLDERS' EQUITY

Share capital – Notes 5, 6, 8, 11 and 12	19,267,602	16,180,041
Share subscriptions received	-	361,905
Contributed surplus – Note 2	703,492	542,492
Deficit – Note 2	<u>(9,862,925)</u>	<u>(9,292,974)</u>
	<u>10,108,169</u>	<u>7,791,464</u>
	<u><u>\$ 28,448,051</u></u>	<u><u>\$ 8,706,945</u></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 “Paul Higgins” Director

SEE ACCOMPANYING NOTES

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

	Three Months Ended August 31		Six Months Ended August 31	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General and Administrative Expenses				
Amortization	\$ 3,140	\$ 1,922	\$ 6,279	\$ 3,741
Bank charges	1,647	540	2,356	859
Interest	7,673	20,929	35,448	59,285
Investor and International relations	45,595	9,935	93,796	100,681
Management and consulting fees	381,119	54,364	501,633	194,792
Office and administration	130,846	27,634	184,830	30,573
Professional fees	69,827	25,461	179,839	44,229
Rent	14,881	8,418	36,935	9,618
Shareholder communications	34,278	27,960	78,936	27,960
Stock-based compensation	-	-	175,000	-
Telephone	9,150	7,448	18,188	11,480
Transfer agent, listing & filing fees	33,947	9,027	49,508	21,352
Travel and promotion	<u>91,148</u>	<u>81,149</u>	<u>184,586</u>	<u>157,303</u>
Loss before other	(823,251)	(274,787)	(1,547,334)	(661,873)
Other:				
Interest income	2,233	52,820	91,909	122,457
Gain (loss) on foreign exchange	<u>1,063,905</u>	<u>(173,292)</u>	<u>885,474</u>	<u>(52,291)</u>
Net earnings (loss) for the period	242,887	(395,259)	(569,951)	(591,707)
Deficit, beginning of the period	<u>(10,105,812)</u>	<u>(7,400,952)</u>	<u>(9,292,974)</u>	<u>(7,204,504)</u>
Deficit, end of the period	<u>\$(9,862,925)</u>	<u>\$(7,796,211)</u>	<u>\$(9,862,925)</u>	<u>\$(7,796,211)</u>
Basic and diluted earnings/loss per share	<u>\$ 0.01</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
Diluted earnings/loss per share	<u>\$ 0.01</u>	<u>Anti-Dilutive</u>	<u>Anti-Dilutive</u>	<u>Anti-Dilutive</u>
Weighted average number of shares outstanding	<u>36,524,234</u>	<u>21,401,077</u>	<u>35,424,860</u>	<u>20,608,106</u>

SEE ACCOMPANYING NOTES

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

	Three Months Ended August 31		Six Months Ended August 31	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Operating Activities				
Net earnings (loss) for the period	\$ 242,887	\$ (395,259)	\$ (569,951)	\$ (591,707)
Items not involving cash:				
Amortization	3,140	1,922	6,279	3,741
Deferred charges	1,594	6,163	21,743	42,084
Shares issued for interest expense	31,119	-	66,855	-
Stock-based compensation	-	-	175,000	-
Unrealized foreign exchange	<u>(1,016,495)</u>	<u>17,193</u>	<u>(774,535)</u>	<u>(76,093)</u>
	<u>(737,755)</u>	<u>(369,981)</u>	<u>(1,074,609)</u>	<u>(622,785)</u>
Changes in non-cash working capital items:				
Accounts receivable	(18,816)	(6,482)	(22,830)	(10,082)
Prepaid expenses	4,537	(4,552)	7,799	175
Accounts payable and accruals	<u>1,307,213</u>	<u>(11,567)</u>	<u>1,463,801</u>	<u>(35,234)</u>
Cash provided by (used in) operating activities	<u>551,179</u>	<u>(392,582)</u>	<u>374,161</u>	<u>(667,926)</u>
Investing Activities				
Loan receivable	-	105,660	1,715,687	(489,145)
Acquisition of capital assets	-	(3,345)	-	(47,539)
Reclamation bond	-	-	(803,920)	-
Mineral property costs	<u>(2,681,250)</u>	<u>(1,138,691)</u>	<u>(21,443,032)</u>	<u>(2,426,130)</u>
Cash used in investing activities	<u>(2,681,250)</u>	<u>(1,036,376)</u>	<u>(20,531,265)</u>	<u>(2,962,814)</u>
Financing Activities				
Advances from (to) related parties	(23,328)	(64,445)	(26,863)	(98,245)
Bridge loan payable	317,746	-	13,056,786	-
Obligation payable	-	-	4,328,800	-
Issuance of shares for cash	<u>560,075</u>	<u>733,104</u>	<u>1,030,221</u>	<u>815,686</u>
Cash provided by financing activities	<u>854,493</u>	<u>668,659</u>	<u>18,388,944</u>	<u>717,441</u>
Decrease in cash during the period	(1,271,578)	(760,299)	(1,768,160)	(2,913,299)
Cash, beginning of the period	<u>1,670,205</u>	<u>3,415,912</u>	<u>2,166,787</u>	<u>5,568,912</u>
Cash, end of the period	<u>\$ 398,627</u>	<u>\$ 2,655,613</u>	<u>\$ 398,627</u>	<u>\$ 2,655,613</u>
Supplemental disclosure of cash flow information;				
Cash paid for Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash paid for Income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Non-cash Transactions – Note 11				

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
SCHEDULE OF MINERAL PROPERTIES
FOR THE SIX MONTHS ENDED AUGUST 31, 2005

	Argentina					USA			August 31, 2005 Total		
	Gran Baio	Laguna Guadalosa	Tres Hermanas	Rio Descado	Taca Taca	La Sarita	Other	Utah Copper		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	-	-	-	440,000	-	32,500	-	-	577,500	-	1,050,000
Shares issued	-	-	-	-	-	-	-	192,076	-	18,119,121	18,311,197
Cash paid	-	-	-	-	-	-	-	-	-	-	-
Construction costs	-	-	-	-	-	32,500	-	192,076	577,500	18,119,121	19,361,197
Exploration expenditures (recovered)	-	-	49,890	-	-	-	4,308	273,524	-	-	327,722
Claim fees	-	-	-	-	-	-	-	-	77,728	91,992	169,720
Equipment	-	-	17,176	3,887	47,019	-	115,709	402,131	101,626	144,753	832,301
Geological consulting	-	47	5,367	-	7,999	-	11,921	419,581	-	98,872	543,787
Field costs	-	-	1,561	788	175	-	32,022	711,224	-	5,143	750,913
Miscellaneous	-	-	647	-	-	-	16,795	143,619	77,680	-	238,741
Salaries and wages	-	-	6,335	951	7,430	-	21,118	-	-	-	35,834
Travel	-	47	80,976	5,626	62,623	-	201,873	1,950,079	257,034	340,760	2,899,018
Total	\$ 74,240	\$ 312,907	\$ 418,179	\$ 572,074	\$ 898,083	\$ 32,500	\$ 201,873	\$ 5,105,692	\$ 976,899	\$ 18,619,088	\$ 27,211,535

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

	Argentina						USA			February 28, 2005 Total	
	Choiqe La Brecha	Gran Bajo	Laguna Guadalosa	Hermanas Tres	Rio Deseado	Taca Taca	Other	Utah Copper	Genesis Gold		Iron Springs
Balance beginning	\$ 140,544	\$ 69,102	\$ 306,037	\$ 225,827	\$ 105,845	\$ -	\$ 102,694	\$ 108,602	\$ -	\$ -	\$ 1,058,651
Acquisition costs	-	-	-	-	-	-	-	-	-	-	-
Shares issued	-	-	-	92,264	47	262,126	(70,000)	835,718	117,500	-	117,500
Cash paid (recovered)	-	-	-	-	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	2,859	230	306	1,607	251	10,607	(16,607)	122,029	-	-	122,029
Claim fees	-	-	-	-	-	-	-	72,851	-	-	72,851
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
AUGUST 31, 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 subsequently transitioned under the Business Corporation Act of British Columbia on August 22, 2005. The Company is in the business of acquiring, exploring and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. As of August 31, 2005, the Company 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 process of exploring its mineral properties and has not yet determined whether these properties contain resources that will be economically recoverable. The recoverability of amounts shown for mineral properties and deferred exploration costs is dependent upon the discovery of economically recoverable resources 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 August 31, 2005, the Company has not yet achieved profitable operations and has accumulated losses of \$9,862,925 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
AUGUST 31, 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, accrued liabilities, and amounts 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 identified current resource estimates. 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.

PALLADON VENTURES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2005 – PAGE 3

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
AUGUST 31, 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 inter-company 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”), in the amount of US\$1.2 million. These loans are comprised of the US\$800,000 that was originally advanced by the Company to WUCC in November of 2003 in connection with entering into the Western Utah Copper joint venture, plus an additional US\$400,000 of advances that were made during the course of calendar year 2004. In order to provide for security for the loans, WUCC offered and did convey on settlement an undivided 50% interest in certain land holdings, known as the Murdock Railroad Property, on which WUCC had previously obtained a certified appraisal valuing the property at US\$8.2 million, net of an encumbrance of approximately US\$550,000. In connection with that conveyance, the parties have also agreed that at such time that project financing is obtained for the production portion of the Western Utah Copper joint venture, such financing will include sufficient funds to pay off the encumbrance on the property. See Note 5 & Note 7 for additional information relating to the WUCC joint venture, and the note on Subsequent Events to Managements Discussion and Analysis accompanying these financial statements for additional information relating to the further handling of the loans receivable.

Note 4 Equipment

	August 31, 2005		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Computer equipment	\$ 5,057	\$ 1,403	\$ 3,654
Vehicle	<u>44,194</u>	<u>12,269</u>	<u>31,925</u>
	<u>\$ 49,251</u>	<u>\$ 13,672</u>	<u>\$ 35,579</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>

PALLADON VENTURES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2005 – PAGE 5

\$ 49,251 \$ 7,388 \$ 41,863

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.

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. George S. Young, the Company’s CEO and a director, is also a director and a one third owner of Deseado LLC(Note 9)

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. As a result of work expenditures and under the terms of the option agreement, the Company now has a fully vested 51% interest. The Company also issued 100,000 shares at \$0.30 per share during the year ended February 29, 2004 for finder’s fees to Research Capital. 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
AUGUST 31, 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	Due Sept 19 2005
After twenty-four months	50,000	Due March 19 2006
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	 US\$ <u>500,000</u>	

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	(paid)
Eighteen months	150,000	Due Nov 2005
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	 US\$ <u>5,000,000</u>	

PALLADON VENTURES LTD.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2005 – PAGE 7

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 agreed to update and finalize a feasibility study on the production portion of the property and expend up to US\$4,000,000 over five years on the exploration portion of the property with a minimum of US\$800,000 (paid) to be spent in the first year. For any new discovery in the exploration areas, the Company also has the option to spend additional amounts to complete a feasibility study covering such new discovery and increase its interest in such discovery to 65%. As of August 31, 2005, the Company has approximately US\$2.1 million of expenditures remaining to be invested at its option over the next three years in the exploration areas in order to be vested in a 50% interest in the exploration portion of the venture. In addition, as of August 31, 2005, the parties have agreed that upon the completion of the purchase of WUCC's interest in the Iron Springs properties (see Note 5(c) below), the Company would be vested in a 50% interest in the production portion of the venture without further obligation to complete a feasibility study on such production portion.
- 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 August 31, 2005, the Company issued a further 900,000 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 Mountain Project"). The Iron Springs properties 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 mine, and most of the Rex area on Iron Mountain. The purchase price for the property was US\$10.0 million for a 100% interest, of which US\$50,000 was paid on signing, with US\$1.3 million as a credit at closing for the amount of the reclamation bond obligation to be assumed by the Company, and US\$8.65 million paid in cash at closing. Prior to entering into the purchase agreement, the Company and 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\$4.7 million to be paid by the forgiveness of US\$1.2 million in loans receivable (Note 3) previously made

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by the Company to WUCC and the payment of US\$3.5 million. This transaction was later renegotiated so that the Company paid US\$500,000 to WUCC as a finder's fee and for the relinquishment of its interest in the Iron Springs properties. In addition, the Company accepted a conveyance of an undivided 50% interest in the Murdoch Railroad Property in full satisfaction of \$US1.2 million loans receivable from WUCC and made an additional \$US3 million investment in the Western Utah Copper project to vest in a 50% interest in the production portion of the joint venture. (See Note 7.) The purchase of the interest in the Iron Mountain Project and the relinquishment of the interest of WUCC closed in September. See also the Subsequent Events note filed in connection with Management's Discussion and Analysis. (refer also to Note 6).

As described above, as a part of the purchase price, the Company posted a US\$1,300,000 reclamation bond with a surety company that replaces the bonding obligation of the seller of the Iron Springs properties and guarantees the reclamation obligation up to the face amount of the bond. 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 under the purchase agreement and with the Utah regulatory authorities. In order to obtain the bond, the Company deposited 50% of such amount, US\$650,000, with the surety company and pays an annual premium for the bond in the amount of US\$27,500.

Note 6 Bridge Loan Payable

The interim loan bears interest at 20% per annum, with US\$1,000,000 interest prepaid at date of the loan, and is due on October 14 2005. The prepaid interest has been capitalized to the Iron Springs properties. 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). A second advance to the Company was made towards the close of this quarter of US\$260,000 and will be accounted for within the next financial quarter.

Note 7 Obligation Payable – Western Utah Copper Company

The Company has made a contractual commitment to acquire WUCC's 35% interest in the Iron Springs properties for US\$3.5 million. (refer to Note 5)

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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: finders fee 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	328,815	118,373
	– at \$0.50	1,089,920	544,960
	– at \$0.80	696,666	557,333
	– at \$0.85	152,986	130,038
Pursuant to conversion of convertible debentures			
	– at \$0.69	945,157	652,158
Less: finders fee costs		-	(20,723)
Pursuant to exercise of options	– at \$0.50	40,000	20,000
Add: fair value of options		-	14,000
Pursuant to exercise of Agent’s options	– at \$0.75	28,562	21,422
Pursuant to mineral property agreement	– at \$0.87	250,000	217,500
Pursuant to mineral property agreement	– at \$0.55	800,000	440,000
Pursuant to mineral property agreement	– at \$0.40	900,000	360,000
Pursuant to mineral property agreement	– at \$0.65	<u>50,000</u>	<u>32,500</u>
Balance, August 31, 2005		<u>30,741,633</u>	<u>\$ 19,267,602</u>

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Note 8 Share Capital – (cont'd)

Escrow shares:

As at August 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 August 31, 2005 and the year ended February 28, 2005 are summarized as follows:

	Six months ended August 31, 2005		Year ended February 28, 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	(40,000)	\$0.50	350,000	\$0.70
Granted	=	-	<u>250,000</u>	\$0.50
Outstanding, end of period	<u>1,900,000</u>	\$0.59	<u>1,590,000</u>	\$0.55
Exercisable, end of period	<u>1,900,000</u>		<u>1,590,000</u>	

As at August 31, 2005, there were 1,900,000 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>
210,000	\$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><u>1,900,000</u></u>		

Share Purchase Warrants

As at August 31, 2005, the Company had 4,479,377 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>
199,860	\$0.50	July 31, 2005
3,287,922	\$0.80	February 27, 2006
269,907	\$0.85	February 27, 2006
249,110	\$0.86	April 26, 2006
283,867	\$0.86	March 15, 2007
81,874	\$0.86	July 21, 2007
<u>106,837</u>	\$0.86	August 8, 2007
<u><u>4,479,377</u></u>		

As at February 28, 2005, the Company had received share subscriptions totalling \$361,904 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 Agents (Canaccord Capital and Pacific International Securities) were 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 period ended August 31, 2005, 28,562 units were acquired by the agent, leaving 594,046 agent's options outstanding at August 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:

	Six Months Ended	
	August 31, <u>2005</u>	August 31, <u>2004</u>
Management and consulting fees	\$ 48,043	194,792
Rent	<u>15,166</u>	<u>2,400</u>
Total	<u>\$ 63,209</u>	<u>\$ 197,192</u>

The charges are measured by the applicable rate of exchange at the date of the transaction.

As at August 31, 2005, accounts payable included \$1,358,371 (February 28, 2005: \$26,863) owing to related parties.

Amounts due to related party are unsecured, non-interest bearing and have no fixed terms of repayment. The related party is George S. Young, who is also a director and a one third owner of Deseado LLC., an Argentinian company reported in Note 5.

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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>1,141,464</u>
	<u>\$ 4,227,836</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 six months ended August 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, 800,000 shares at \$0.55 per share, 900,000 shares at \$0.40 and 50,000 shares at \$0.65 per share pursuant to mineral property acquisition agreements.
- b) The Company issued 945,157 shares at \$0.69 per share pursuant to the conversion of convertible debentures. Included in this transaction was \$20,723 finders fee allocated to share issue costs.

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Note 12 Convertible Debentures

Convertible debentures payable of \$148,947 (February 28, 2005: \$734,250) with interest at 8% per annum due November 20, 2006 are unsecured. As at August 31, 2005, accrued interest of \$21,220 is included in accounts payable (February 28, 2005: \$74,789). The principal amount and accrued interest outstanding are convertible 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. Subsequent to August 31, 2005, the balance of these debentures was converted into units.

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 of August 31, 2005, the Company had cash and cash equivalents totalling \$398,627 (February 28, 2005: \$353,831), of which \$US 35,318 was held in the United States, and Pesos \$166,354 (\$US 58,224) in Argentina (February 28, 2005: \$558,358). Loans receivable totalling \$0 (February 28, 2005: \$1,715,687) were held in US dollars.

Note 14 Subsequent Events
Renegotiated Financing & Loan

The company announced on September 26, 2005, that it had completed and closed a secured long term loan in the principal amount of US\$12,750,000 to refinance the acquisition of the Iron Project. The Loan has an interest rate of 9.25% per annum, calculated quarterly and has a five-year term. The Loan proceeds have been applied towards repayment of the outstanding bridge loan provided by Luxor that was used for the Iron Mountain Project acquisition, with the balance to be applied towards working capital, out of which the Company will contribute US\$500,000 for working capital for Palladon Iron Corporation (the "Iron Company"). Luxor has also provided a US\$500,000 contribution to the Iron Company for the operation of the Iron Project .

As consideration for granting the Loan, the Company granted to Luxor 2,357,137 share purchase

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warrants exercisable at \$0.62 per share for a period of two years.

With respect to the relinquishment of interest to Western Utah Copper Company in the Iron Mountain Project, and the vesting of the company in the Western Utah Copper Project joint venture, refer to the notes in Subsequent Events and with the Management Discussion and Analysis accompanying these financial statements.

Also subsequent to August 31, 2005:

Shares issued

	\$/Unit	Number of Shares	Amount
Balance August 31 2005		30,741,633	\$19,267,602
Exercise of Warrants	\$0.50	11,360	5680
Convertible Debentures	\$0.69	246,991	170,424
Exercise of Warrants	\$0.80	27,000	21,600
Balance October 31 2005		<u>31,026,984</u>	<u>\$ 19,458,306</u>

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