

PALLADON VENTURES LTD.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2007 and 2006

AUDITORS' REPORT

To the Shareholders,
Palladon Ventures Ltd.

We have audited the consolidated balance sheets of Palladon Ventures Ltd. (the "Company") as at February 28, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2007 and 2006 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 28, 2007

"AMISANO HANSON"
Chartered Accountants

PALLADON VENTURES LTD.
CONSOLIDATED BALANCE SHEETS
February 28, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u> (Restated – Note 16)
Current		
Cash	\$ 135,936	\$ 1,676,346
GST recoverable	24,834	11,283
Accounts receivable	55,706	-
Marketable securities	144,000	-
Prepaid expenses and deposits	<u>69,678</u>	<u>24,796</u>
	430,154	1,712,425
Equipment – Note 3	52,281	31,113
Reclamation bond – Note 4	754,845	745,940
Mineral properties and related equipment – Note 5 and Schedule 1	22,437,873	25,536,244
Other – Note 6	<u>10</u>	<u>10</u>
	<u>\$ 23,675,163</u>	<u>\$ 28,025,732</u>

LIABILITIES

Current		
Accounts payable and accrued liabilities – Note 9	\$ 474,929	\$ 1,878,502
Due to related party – Notes 9 and 13	2,247,150	1,603,418
Loan payable – Note 7	<u>174,195</u>	<u>-</u>
	2,896,274	3,481,920
Loan payable – Note 7	11,390,217	14,631,900
Non-controlling interest	<u>3,804,423</u>	<u>2,523,221</u>
	<u>18,090,914</u>	<u>20,637,041</u>

SHAREHOLDERS' EQUITY

Share capital – Notes 8 and 13	27,183,716	20,287,413
Contributed surplus – Note 8	2,288,089	1,288,971
Deficit	<u>(23,887,556)</u>	<u>(14,187,693)</u>
	<u>5,584,249</u>	<u>7,388,691</u>
	<u>\$ 23,675,163</u>	<u>\$ 28,025,732</u>

Nature and Continuation of Operations – Note 1
Commitments – Notes 5, 7, 8 and 12
Subsequent Events – Notes 8 and 13

APPROVED BY THE DIRECTORS:

<u>“Donald G. Foot Jr.”</u> Donald G. Foot Jr.	Director	<u>“Michael G. Nelson”</u> Michael G. Nelson	Director
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SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
for the years ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u> (Restated – Note 16)
General and administrative expenses		
Amortization	\$ 9,884	\$ 12,559
Bank charges	3,328	6,425
Consulting	74,868	-
Interest	1,644,046	3,205,907
Investor relations	17,084	135,167
Management fees – Note 9	109,911	370,010
Office and administration	310,014	563,792
Professional fees – Note 9	405,961	275,577
Rent – Note 9	136,111	108,812
Salaries and benefits – Note 9	803,151	-
Shareholder communications	75,491	108,318
Stock-based compensation – Note 8	288,000	745,100
Telephone	29,813	31,852
Transfer agent and filing fees	160,809	62,331
Travel and promotion	<u>391,697</u>	<u>342,463</u>
Loss before other and non-controlling interest	(4,460,168)	(5,968,313)
Other:		
Gain on investment	688,802	-
Write-off of mineral properties – Note 5	(5,735,310)	(616,733)
Write-off of equipment	(26,295)	-
Other income	87,791	-
Interest income	7,784	143,723
Gain (loss) on foreign exchange	<u>(931,693)</u>	<u>1,079,825</u>
Loss for the year before non-controlling interest	(10,369,089)	(5,361,498)
Non-controlling interest	<u>669,226</u>	<u>466,779</u>
Net loss for the year	(9,699,863)	(4,894,719)
Deficit, beginning of the year	<u>(14,187,653)</u>	<u>(9,292,974)</u>
Deficit, end of the year	<u>\$ (23,887,556)</u>	<u>\$ (14,187,693)</u>
Basic and diluted loss per share	<u>\$ (0.22)</u>	<u>\$ (0.17)</u>
Weighted average number of shares outstanding	<u>43,800,382</u>	<u>29,737,487</u>

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended February 28, 2007 and February 29, 2006

	<u>2007</u>	<u>2006</u> (Restated – Note 16)
Operating Activities		
Net loss for the year, before non-controlling interest	\$ (10,369,089)	\$ (5,361,498)
Items not involving cash:		
Amortization	9,884	12,559
Deferred charges	-	21,743
Shares issued for interest expense	-	88,332
Stock-based compensation and finance charges	619,118	745,100
Unrealized foreign exchange loss	369,439	267,380
Interest paid	688,802	-
Gain on sale	(688,802)	-
Accrued interest payable	-	491,500
Write-off of equipment	26,295	-
Write-off of mineral properties	<u>5,735,310</u>	<u>616,733</u>
	(3,609,043)	(3,118,151)
Changes in non-cash working capital items:		
Accounts receivable	(55,706)	-
GST recoverable	(13,551)	2,557
Prepaid expenses	(44,882)	(16,997)
Accounts payable and accrued liabilities	<u>(1,403,611)</u>	<u>1,232,634</u>
Cash used in operating activities	<u>(5,126,793)</u>	<u>(1,899,957)</u>
Investing Activities		
Acquisition of equipment	(57,347)	(1,809)
Mineral property (costs) recovered	647,796	(16,277,246)
Equipment under construction	(3,371,726)	(2,326,551)
Reclamation bond	<u>-</u>	<u>(745,940)</u>
Cash used in investing activities	<u>(2,781,277)</u>	<u>(19,351,546)</u>
Financing Activities		
Advances from related parties	643,732	1,576,555
Issuance of shares for cash	7,219,304	1,562,607
Loans payable	(2,757,030)	14,631,900
Non-controlling interest	<u>1,261,626</u>	<u>2,990,000</u>
Cash provided by financing activities	<u>6,367,632</u>	<u>20,761,062</u>

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SEE ACCOMPANYING NOTES

Continued

PALLADON VENTURES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended February 28, 2007 and February 29, 2006

	<u>2007</u>	<u>2006</u> (Restated – Note 16)
Decrease in cash during the year	(1,540,438)	(490,441)
Cash, beginning of the year	<u>1,676,346</u>	<u>2,166,787</u>
Cash, end of the year	<u>\$ 135,936</u>	<u>\$ 1,676,346</u>
Supplemental disclosure of cash flow information;		
Cash paid for:		
Interest	<u>\$ 979,119</u>	<u>\$ 2,714,407</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash Transactions – Note 15		

SEE ACCOMPANYING NOTES

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

Schedule 1

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

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES AND RELATED EQUIPMENT
for the year ended February 28, 2006
(Restated – Note 16)

Schedule 1

	<u>Argentina</u>	<u>USA</u>						<u>Total</u>
		<u>Utah Copper</u>	<u>Genesis Gold</u>	<u>Mineral Property</u>	<u>Iron Springs</u>			
					<u>Equipment Under Construction</u>			
				<u>Rail Line</u>	<u>Substation</u>	<u>Plant</u>		
Balance, beginning	\$ 1,686,211	\$ 2,730,720	\$ 142,365	\$ 159,207	\$ -	\$ -	\$ -	\$ 4,718,503
Acquisition and construction costs	-	-	-	-	1,830,029	334,058	162,464	2,326,551
Shares issued	537,500	-	577,500	-	-	-	-	1,115,000
Cash paid	<u>126,429</u>	<u>-</u>	<u>-</u>	<u>13,369,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,496,219</u>
	<u>663,929</u>	<u>-</u>	<u>577,500</u>	<u>13,369,790</u>	<u>1,830,029</u>	<u>334,058</u>	<u>162,464</u>	<u>16,937,770</u>
Exploration expenditures (recovered)								
Assays	-	41,616	5,215	38,169	-	-	-	85,000
Claim fees	16,182	542,762	86,951	24,216	-	-	-	670,111
Equipment	-	525,583	-	46,240	-	-	-	571,823
Field costs	21,472	342,618	18,399	-	-	-	-	382,489
Geological consulting	606,299	791,234	94,366	-	-	-	-	1,491,899
Miscellaneous	62,813	769,481	1,279	108,003	-	-	-	941,576
Salaries	-	221,480	-	-	-	-	-	221,480
Supplies	24,810	43,904	1,283	-	-	-	-	69,997
Travel	<u>62,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,329</u>
	<u>793,905</u>	<u>3,278,678</u>	<u>207,493</u>	<u>216,628</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,496,704</u>
Write-offs	<u>(616,733)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(616,733)</u>
Total	\$ 2,527,312	\$ 6,009,398	\$ 927,358	\$ 13,745,625	\$ 1,830,029	\$ 334,058	\$ 162,464	\$ 25,536,244

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
February 28, 2007 and 2006

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 of February 28, 2007, the Company was in the development stage and had interests in properties located in Argentina and the United States of America. The Company is listed on the TSX Venture Exchange (the "Exchange") and the Frankfurt Exchange.

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

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At February 28, 2007, the Company had a working capital deficiency of \$2,466,121, has not yet achieved profitable operations, has accumulated losses of \$24,084,957 since its inception and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates that have been made using careful judgement. Actual results may differ from these estimates.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Note 2 Significant Accounting Policies – (cont'd)

a) Principles of Consolidation

These financial statements include the accounts of the Company and its subsidiary, Palladon Iron Corporation (“PIC”). PIC was incorporated as a wholly-owned subsidiary in Utah on April 6, 2005 and holds the Iron Springs mineral properties. During the year ended February 28, 2006, the Company sold 50% of its interest in PIC. The Company considers that PIC is a subsidiary as the Company controls the board of directors of PIC.

b) Financial Instruments

The carrying value of the Company’s financial instruments, consisting of cash, accounts receivable, marketable securities, 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 loan payable also approximates fair value. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

c) Marketable Securities

Marketable securities are carried at the lower of cost and net realizable value. Net realizable value is determined by the quoted market price.

d) Equipment and Amortization

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

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

Additions to equipment are amortized at one-half the normal rate during the year of acquisition. Plant and equipment under construction is not amortized until construction is complete and the assets are in use.

e) Mineral Properties

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

Note 2 Significant Accounting Policies – (cont'd)

e) 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.

f) 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.

g) 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.

h) Income Taxes

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

Note 2 Significant Accounting Policies – (cont'd)

i) 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.

j) Stock-based Compensation

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

The Company uses the Black-Scholes options valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase option.

k) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. At February 28, 2007, the Company cannot reasonably estimate the fair value of the resource properties' site restoration costs, if any.

l) Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Management believes there has been no impairment of the Company's long-lived assets as at February 28, 2007.

Note 3 Equipment

	2007		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Office furniture and equipment	\$ 64,046	\$ 11,993	\$ 52,113
	2006		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Computer equipment	\$ 6,866	\$ 2,049	\$ 4,817
Vehicle	44,194	17,898	26,296
	<u>\$ 51,060</u>	<u>\$ 19,947</u>	<u>\$ 31,113</u>

Note 4 Reclamation Bond

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

Note 5 Mineral Properties – Notes 4 and 8

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

Argentina

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

During the year ended February 29, 2004, the Company issued to the optionor 600,000 shares at \$0.30 per share and 100,000 shares at \$0.30 per share for finder’s fees. During the year ended February 28, 2006, a further 800,000 common shares at \$0.30 per share were issued to the optionor. The properties are divided into groups with exploration expenditure requirements as follows:

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

Argentina – (cont'd)

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

On March 19, 2004	US\$ 40,000	(paid)
September 19, 2004	30,000	(paid)
March 19, 2005	40,000	(paid)
September 19, 2005	40,000	(paid)
March 19, 2006	50,000	
September 19, 2006	50,000	
March 19, 2007	60,000	
September 19, 2007	80,000	
March 19, 2008	<u>110,000</u>	
Total	<u>US\$ 500,000</u>	

- c) The Company has not made any payment since the September 19, 2005 payment, and management has decided not to continue with this property. The Company has written-off expenditures incurred to date totalling \$268,384 during the year ended February 28, 2007.
- d) By agreement dated May 31, 2004, the Company entered into an option agreement to acquire a 100% interest in approximately 2,000 hectares known as the Taca Taca Alta properties located in Salta province, Argentina. Consideration is US\$5,000,000 payable from the agreement date as follows:

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

Argentina – (cont'd)

d) – (cont'd)

Five days after signing	US\$ 100,000	(paid)
November 30, 2004	100,000	(paid)
July 10, 2005	30,000	(paid)
August 1, 2005	70,000	(paid)
November 30, 2005	150,000	(paid)
May 31, 2006	200,000	
November 30, 2006	250,000	
May 31, 2007	300,000	
November 30, 2007	350,000	
May 31, 2008	500,000	
May 31, 2009	<u>2,950,000</u>	
Total	<u>US\$5,000,000</u>	

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

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

	<u>Cash</u>	<u>Shares</u>	<u>Exploration Expenditures</u>
On signing	US\$	50,000 (issued)	US\$ -
By December 23, 2005	30,000	100,000 (issued)	15,460
By January 31, 2006	45,000	-	-
By March 31, 2006	-	-	134,540
By December 3, 2006	75,000	150,000	300,000
By December 8, 2007	100,000	200,000	450,000
By December 8, 2008	<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>

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

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

Utah, USA

- a) The Company had an option to acquire a 50% interest in approximately 40,000 acres of mineral rights located in Beaver County, Utah. As consideration, the Company was to update and finalize a feasibility study and expend up to US\$4,000,000 over five years with a minimum of US\$800,000 (paid) to be spent in the first year.

During the year ended February 28, 2007, the Company and the optionor entered into an amending agreement that provided terms whereby either party could buy out the other's interest. On January 9, 2007 the optionor exercised its option to purchase the Company's interest in the Utah Copper project for US\$3,000,000 (received), a 1% net smelter royalty from copper produced from the current resource (maximum US\$10,000,000) and a 2% net smelter royalty from copper produced from newly-discovered ore bodies.

As a result of the disposal of its direct interest in the property the Company has written off the remaining carrying value by \$4,180,792 to a nominal value of \$10 during the year ended February 28, 2007.

- b) On May 7, 2004, the Company entered into an option agreement for the right to acquire a 100% interest in five mineral exploration properties (the Genesis Gold properties) covering 5,480 acres in Utah and Nevada in consideration for 250,000 common shares (issued) and a further 1,300,000 shares in stages on or before the third anniversary. During the year ended February 28, 2006, the Company issued 1,150,000 common shares valued at \$577,500 to maintain its option in each of the five mineral properties. During the year ended February 28, 2007, the Company issued 150,000 shares valued at \$57,000 to obtain a 100% interest in the properties. The properties are subject to a 3% net smelter return royalty.

During the year ended February 28, 2007, the Company granted an option to another public company having a director in common to acquire a 75% interest in the properties by issuing 450,000 common shares to the Company (received) and 850,000 shares to the underlying optionor within five days of regulatory approval. The optionee must also incur exploration expenditures of US\$5,000,000 over five years of which US\$1,200,000 must be completed during calendar 2006.

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

Utah, USA – (cont'd)

- c) During year ended February 28, 2006, the Company completed the purchase of the Rex, Mountain Lion and Comstock Iron properties (the Iron Springs properties) with the proceeds of an interim loan from Luxor Capital Group, LC. (“Luxor”). The purchase price for the property was US\$10.0 million, of which \$50,000 was paid on signing, with \$1.3 million as a credit at closing for the amount of the reclamation bond obligation to be assumed by the Company (Note 4), and \$8.65 million paid in cash at closing. Prior to entering into the purchase agreement, the Company and Western Utah Copper Company (WUCC) entered into a Joint Venture Agreement, which provided that the Company shall have a 65 % interest in the property, and WUCC shall have a 35 % interest. Concurrently with the acquisition, the parties negotiated for the buyout of WUCC’s interest for US\$3.5 million plus the forgiveness of approximately US\$1,500,000 in loans and accrued interest receivable previously made by the Company to WUCC. The Iron Springs properties are held by the Company’s subsidiary, Palladon Iron Corporation.

In connection with the refinancing of the interim loan, the Company and Luxor have agreed to jointly fund the Iron Springs project and during the year ended February 28, 2006 the Company transferred 50% of its interest in Palladon Iron Corporation (PIC), at cost, to Luxor for US\$3,000,000. The proceeds were applied to reduce the carrying cost of acquiring the property. Pursuant to a shareholders agreement, the parties will be issued additional shares of PIC at a pre-agreed price per share based on funding contributed. The actual percent owned by the parties may fluctuate depending on the timing of funding provided by each party, however each party has the right to maintain its 50% interest in PIC. As at February 28, 2007 the Company owned 43.8% (2006: 41.9%) of PIC. The Company controls the board of directors of PIC and manages the day to day operations of PIC and has accounted for its interest in PIC as a consolidated subsidiary. Luxor’s interest in PIC is shown as non controlling interest.

Note 6 Other Asset

During the year ended February 28, 2005 the Company completed an arrangement for securitizing certain default loans payable to the Company. In that arrangement the debtor conveyed to the Company an undivided 50% interest in certain land holdings, known as the Murdock Railroad Property, located in Beaver County, Utah. The Company’s interest in the land holdings as been recorded at a nominal value of \$10.

Note 7 Loan Payable

Loan payable to Luxor of US\$9,808,161 (2006: US\$12,750,000), due September 24, 2010, with interest payable quarterly at 9.25% per annum. The loan is secured by a promissory note, a general security agreement, the shares of PIC and a mortgage on the Murdock Railway Property. In connection with the financing, the Company granted the lender share purchase warrants which entitle Luxor to acquire up to 2,357,137 common shares at \$0.62 per share until September 23, 2007.

Note 7 Loan Payable – (cont'd)

During the year ended February 26, 2007, Luxor also loaned the Company \$174,195 (US\$150,000) with no interest or repayment terms. The Company repaid this amount subsequent to February 28, 2007.

Note 8 Share Capital – Notes 5, 7 and 13

Authorized:

Unlimited common shares without par value

Issued:

		Number of Shares	(Restated – Note 16) Amount
Balance, February 28, 2005		25,459,527	\$ 16,180,041
For cash:			
Pursuant to exercise of warrants	- at \$0.36	328,815	118,373
	- at \$0.50	1,101,280	550,640
	- at \$0.80	723,666	578,933
	- at \$0.85	152,986	130,038
Pursuant to conversion of convertible debentures	- at \$0.69	1,192,148	822,582
Less: share issue costs		-	(20,723)
Pursuant to exercise of options	- at \$0.45	200,000	90,000
	- at \$0.50	290,000	145,000
	- at \$0.70	250,000	175,000
	- at \$0.75	100,000	75,000
	- at \$0.80	50,000	40,000
Pursuant to exercise of agent's options	- at \$0.75	28,562	21,422
	- at \$0.85	125	106
Transfer from contributed surplus on exercise of options		-	266,001
Pursuant to mineral property agreements	- at \$0.87	250,000	217,500
	- at \$0.55	800,000	440,000
	- at \$0.40	900,000	360,000
	- at \$0.65	150,000	97,500
Balance, February 28, 2006		31,977,109	20,287,413
For cash:			
Private placements	- at \$0.50	10,000,000	5,000,000
	- at \$0.55	5,004,497	2,752,473
Less: share issue costs		-	(1,052,471)
Exercise of broker options	- at \$0.50	278,602	139,301
Pursuant to mineral property agreements	- at \$0.38	<u>150,000</u>	<u>57,000</u>
Balance, February 28, 2007		<u>47,410,208</u>	<u>\$ 27,183,716</u>

Note 8 Share Capital – Notes 5, 7 and 13 – (cont'd)

Escrow Shares:

As at February 28, 2007, 37,500 (2006: 37,500) common shares are held in escrow subject to direction for their release by regulatory authorities.

Commitments:

Share Purchase Options

The Company may grant share purchase options to directors, officers or employees to acquire shares of the Company. Unless otherwise noted, the share purchase options vest when granted. Share purchase option activities for the years ended February 28, 2007 and 2006, are summarized as follows:

	Year ended February 28, 2007		(Restated – Note 16) Year ended February 29, 2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	2,240,000	\$0.69	1,590,000	\$0.55
Granted	1,570,000	\$0.45	1,540,000	\$0.86
Exercised	-	-	(890,000)	\$0.59
Cancelled	<u>(450,000)</u>	\$0.74	<u>-</u>	-
Outstanding end of year	<u>3,360,000</u>	\$0.57	<u>2,240,000</u>	\$0.69
Exercisable end of year	<u>3,260,000</u>		<u>2,240,000</u>	

As of February 28, 2007, there were 3,360,000 employee and director's share purchase options outstanding. Each option entitles the holder thereof the right to purchase one common share as follows:

Note 8 Share Capital – Notes 5, 7 and 13 – (cont'd)

Commitments: – (cont'd)

Share Purchase Options – (cont'd)

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
400,000	\$0.45	September 8, 2008
50,000	\$0.80	November 26, 2008
100,000	\$0.50	October 22, 2009
100,000	\$0.70	October 22, 2009
350,000	\$0.75	April 21, 2010
180,000	\$0.85	August 8, 2010
450,000	\$0.75	August 29, 2010
160,000	\$0.75	November 10, 2010
*200,000	\$0.80	October 31, 2008
<u>1,370,000</u>	\$0.40	December 15, 2011
<u><u>3,360,000</u></u>		

* These options vest as to 25% every three months from their grant date of October 31, 2006. Subsequent to February 28, 2007, these options were cancelled with none being exercised.

Share Purchase Warrants

Share purchase warrant activities for the years ended February 28, 2007 and 2006, are summarized as follows:

	<u>Year ended February 28, 2007</u>		<u>Year ended February 29, 2006</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	3,202,322	\$0.68	6,261,187	\$0.72
Issued	12,780,851	\$0.74	2,967,492	\$0.67
Exercised	-	-	(2,306,747)	\$0.60
Expired	<u>(249,110)</u>	40.86	<u>(3,719,610)</u>	\$0.79
Outstanding, end of year	<u><u>15,734,063</u></u>	\$0.73	<u><u>3,202,322</u></u>	\$0.68

Note 8 Share Capital – Notes 5, 7 and 13 – (cont'd)

Commitments: – (cont'd)

Share Purchase Warrants – (cont'd)

At February 28, 2007, the Company had 15,734,063 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>
283,867	\$0.86	March 5, 2007
40,925	\$0.86	July 21, 2007
40,949	\$0.86	July 22, 2007
106,838	\$0.86	August 8, 2007
62,389	\$0.86	October 6, 2007
61,107	\$0.86	October 19, 2007
2,357,137	\$0.62	September 23, 2007
10,000,000	\$0.75	March 31, 2008
278,602	\$0.75	July 13, 2008
700,000	\$0.70	July 20, 2008
<u>1,802,249</u>	<u>\$0.70</u>	<u>August 31, 2008</u>
<u>15,734,063</u>		

Agent Options:

In connection with a private placement completed during the year ended February 28, 2007, the Agents were granted an option to acquire 1,000,000 units at \$0.50 per unit up to March 31, 2008. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.75 per share up to March 31, 2008. During the year 278,602 agents options were exercised and as at February 28, 2007 there were 721,398 agents options outstanding.

Stock-based Compensation:

During the years ended February 26, 2007 and 2006, the Company recognized charges associated with share purchase options and certain share purchase warrants granted during the year. The amount recorded for stock-based compensation expense was \$288,000 (2006: \$550,000). The Company also recorded share issue costs of \$380,000 (2006: \$nil) as the fair value of options granted to the agents. During the year ended February 28, 2006 the fair value of share purchase warrants granted on the conversion of debentures was \$196,705 and the fair value of share purchase warrants granted in connection with a loan was \$895,712. This amount is recognized over the remaining term of the loan. The fair values were determined using the Black-Scholes model with the following assumptions:

Note 8 Share Capital – Notes 5, 7 and 12 – (cont'd)

Stock-based Compensation: – (cont'd)

	<u>2007</u>	<u>2006</u>
Expected dividend yield	0%	0%
Expected stock price volatility	86% - 92%	69% to 100%
Risk-free interest rate	3.13% - 3.58%	3.42% to 3.86%
Expected life in years	2 – 5 years	2 – 5 years

Contributed Surplus:

	<u>2007</u>	Restated Note 16 <u>2006</u>
Balance, beginning of year	\$ 1,288,971	\$ 542,492
Fair value of share purchase options granted	288,000	745,100
Fair value of share options granted to agents	380,000	-
Fair value of share purchase warrants granted on debenture conversion	-	196,705
Fair value of share purchase warrants granted with loan payable	331,118	70,675
Less: value transferred on exercise of options	<u>-</u>	<u>(266,001)</u>
Balance, end of year	<u>\$ 2,288,089</u>	<u>\$ 1,288,971</u>

Note 9 Related Party Transactions – Note 5

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

	Years ended February 28,	
	<u>2007</u>	<u>2006</u>
Legal	\$ 202,600	\$ -
Management fees	75,000	370,010
Rent	-	15,404
Salaries	<u>377,677</u>	<u>-</u>
Total	<u>\$ 655,277</u>	<u>\$ 385,414</u>

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

Note 11 Financial Instruments

Foreign currency risk:

The Company is exposed to fluctuations in foreign currencies through its operations in the United States and Argentina. The Company monitors this exposure, but has no hedge positions. As at February 28, 2007, cash totalling \$106,018 (2006: \$1,476,245) was held in US dollars and \$1,513 in Argentine Pesos (2006: \$791) and accounts receivable totalling \$55,706 (February 29, 2006: \$Nil) was held in US dollars.

Note 12 Commitments

- a) The Company has entered into a four-year lease commencing May 1, 2006 for office premises located in Salt lake City, Utah. Base rent is US\$9,048 per month in the first year increasing annually to US\$9,888 per month in the final year.
- b) The Company has entered into an agreement to supply a minimum of 12,000 tons of iron ore per year over a four year term ending December 31, 2011.

Note 13 Subsequent Events – Note 8

Subsequent to February 28, 2007:

- a) The Company issued 26,187,410 units at \$0.30 per unit for total proceeds of \$7,856,223 pursuant to a non-brokered private placement. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share at \$0.50 per share for two years. The Company also paid a finder's fee of \$600,350 cash and 564,750 units with the same terms as the private placement.
- b) The Company issued 2,290,597 shares to settle a debt of \$1,603,418 which was due to a director as at February 28, 2007.

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, 2007				
Net loss	<u>\$ (8,145,345)</u>	<u>\$ (1,190,794)</u>	<u>\$ (1,554,518)</u>	<u>\$ (9,699,863)</u>
Current assets	\$ 67,959	\$ 360,682	\$ 1513	\$ 430,154
Reclamation bond	-	754,845	-	754,845
Other	-	10	-	10
Equipment	2,106	50,175	-	52,281
Mineral properties	<u>-</u>	<u>20,996,667</u>	<u>1,441,206</u>	<u>22,437,873</u>
Total assets	<u>\$ 70,065</u>	<u>\$ 22,162,379</u>	<u>\$ 1,442,719</u>	<u>\$ 23,675,163</u>
Year ended February 28, 2006				
Net loss	<u>\$ (4,091,312)</u>	<u>\$ (803,407)</u>	<u>\$ -</u>	<u>\$ (4,894,719)</u>
Current assets	\$ 230,593	\$ 1,481,041	\$ 791	\$ 1,712,425
Loans receivable	-	745,940	-	745,940
Other	-	10	-	10
Equipment	-	31,113	-	31,113
Mineral properties	<u>-</u>	<u>23,408,930</u>	<u>2,527,314</u>	<u>25,936,244</u>
Total assets	<u>\$ 230,593</u>	<u>\$ 25,667,034</u>	<u>\$ 2,528,105</u>	<u>\$ 28,025,732</u>

Note 15 Non-cash Transactions

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

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

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

Note 15 Non-cash Transactions – (cont'd)

- c) The Company transferred 58 shares owned of PIC to the non-controlling interest in lieu of interest payments of \$688,802 required on a loan payable.

During the year ended February 28, 2006, the following transactions were excluded from the statement of cash flows:

- a) The Company issued 2,100,000 common shares valued at \$1,115,000 for acquisition of mineral properties.
- b) The Company issued 1,192,148 common shares valued at \$822,582 on the settlement of convertible debentures and accrued interest payable.
- c) The Company settled a loan receivable and accrued interest receivable totalling \$1,848,777 by the acquisition of an interest in mineral properties.

Note 16 Period Year Error Corrections

Certain comparative figures for the year ended February 28, 2006 have been restated. Share purchase options for the acquisition of up to 405,000 shares at \$0.85 per share were not disclosed in 2006 resulting in an understatement of stock based compensation expense of \$194,400. A transfer from contributed surplus to share capital in the amount of \$78,500 as a result of the exercise of share purchase options was also not recorded.

The Company recorded the cost of acquiring its interest in PIC at a deemed value equivalent to funding provided by Luxor and recorded the subscription of additional shares of PIC to match the contributions of Luxor. The Company did not complete the subscription as intended nor did the parties agree on the deemed value. The proceeds from the sale of 50% of its original interest, which was previously recorded as non controlling equity interest in PIC has been reclassified as a recovery of the cost of acquiring the Iron Springs property. Also the non controlling interest's share of the operating losses of PIC in the amount of \$466,779 was not recorded.

As a result of the above corrections the carrying value of the Iron springs property decreased by \$3,513,000, the non controlling interest decreased by \$4,086,079, share capital increased by \$78,500, contributed surplus increased by \$115,900, and deficit and loss for the year decreased by \$78,680. The change in deficit and results of operations has been restated as follows:

Deficit, February 28, 2006, as previously stated	\$ (14,266,373)
Increase in stock based compensation	(194,400)
Decrease in foreign exchange gain	(193,699)
Non- controlling interest in share of losses	<u>466,779</u>
Deficit, February 28, 2006, as restated	<u>\$ (14,187,693)</u>