

PALLADON VENTURES LTD.
MANAGEMENT DISCUSSION AND ANALYSIS

For the twelve months ending February 28, 2006

The following discussion is management's assessment and analysis of the results and financial condition of Palladon Ventures Ltd. (the "Company") and should be read in conjunction with the audited financial statements for the year ending February 28, 2006 and related notes thereto. The preparation of financial data is in accordance with Canadian generally accepted accounting principles and all figures are reported in Canadian dollars unless otherwise indicated.

Certain statements in this discussion may constitute forward looking statements but no assurance can be given that these will prove to be correct or should be unduly relied upon. Although the Company has attempted to take into account all important factors that could cause actual costs or results to differ materially, there may be other factors that cause costs of the Company's reported results not to be as intended.

1.1 Date of Report: June 30, 2006

1.2 Overall Performance

The Company is in the business of acquiring, exploring and developing mineral resource properties with a view to achieving commercial production.

The Company's primary assets consist of mineral rights in 130,000 hectares (321,230 acres) in the Deseado Massif and Somuncurah Massif regions of Patagonia, Argentina; 8,000 hectares (19,770 acres) in and around the Tacalto Project in Northern Argentina; the 40,468 hectares (100,000 acre) Western Utah Copper Project, near Milford, Utah; 3,130 hectares (7,740 acres) of gold projects in Utah and Nevada; and the Iron Springs properties covering approximately 2,400 hectares (5930 acres) of patented and unpatented claims in Iron County, Utah.

Iron Mountain Project, Utah

The Iron Mountain Project is located in the Iron Springs District of Iron County, Utah, approximately 20 miles northwest of Cedar City. Palladon holds a 50% interest in the project with joint venture partner Luxor Capital, through the Company's private subsidiary, Palladon Iron Corporation.

Acquisition

On February 2, 2005, the Company, in conjunction with the Western Utah Copper Company (WUCC), announced an agreement with Iron Ore Mines LLC (IOM) to purchase, pursuant to bankruptcy proceedings, all of its iron mineral properties and interests in Iron County, in southwestern Utah (the "JV Property"). The JV property contains approximately 2,560 hectares of net mineral and surface acres, including 162 hectares of irrigated farmland valuable principally for its water rights. The acquisition was closed in April 2005. The purchase price for the JV Property was US\$10 million, of which US\$50,000 was paid on signing, US\$1.3 million was credited at closing for the amount of the reclamation bond assumed by Palladon and WUCC, and US\$8.65 million paid in cash at closing.

In order to finance the purchase price the Company obtained an interim loan from Luxor Capital Group, LC ("Luxor"). The interim loan was US\$9.3 million at an interest rate of 20% per annum, maturing October 14, 2005. On September 26, 2005, the Company announced the closing of a

secured long-term loan in the principal amount of US\$12,750,000 to refinance the acquisition of the Iron Mountain project. The loan has an interest rate of 9.25% per annum, calculated quarterly with a five-year term. The loan proceeds were applied towards repayment of the outstanding interim loan and outstanding interest thereon provided by Luxor that was used for the JV Property acquisition, with the balance applied towards working capital, out of which the Company contributed US\$500,000 for working capital for Palladon Iron Corporation (the "Iron Company"). As a part of the refinancing transaction, Luxor purchased a 50% equity interest in the JV Property for US\$3.0 million. Luxor also provided a US\$500,000 equity contribution to the Iron Company for the operating capital.

Prior to entering into the purchase agreement for the Iron Mountain Project, the Company and WUCC entered into a Joint Venture Agreement, which provided that the Company shall have a 65% interest in the Iron Mountain property, and WUCC shall have a 35% interest. The parties subsequently negotiated for the buyout of WUCC's interest for US\$5.0 million to be paid by the forgiveness of US\$1.5 million in loans receivable previously made by the Company to WUCC and a loan payable 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. During the year ended February 28, 2005, the Company accepted a conveyance of an undivided 50% interest in the Murdoch Railroad Property with respect to the loans receivable from WUCC. The purchase of the interest in the Iron Mountain properties and the relinquishment of WUCC's interest in the properties closed in September 2005.

Development Mandate & Project Risks

In conjunction with the acquisition of the JV Property, Palladon inherited a comprehensive archive of historic data on properties within the Iron Springs District, generated by predecessor companies such as Geneva Steel and the Columbia Iron Mining Company (formerly a subsidiary of US Steel). The archive holds data and reports covering every facet of the District's historic mining operations, including drill logs, engineering reports, feasibility studies, and over 1,000 maps and diagrams. A NI 43-101 technical report, dated September 15, 2005, was prepared for Palladon by Mr. R.H. Russell. The report cites a current resource of 33,233,554 Tons grading 47.4% Fe, calculated in 2001 by Norwest for Geneva Steel as part of a mine plan and processing study. This resource, in conjunction with other historic resources on the JV Property remains unverified by Palladon.

Palladon's original plans to build a 1,000,000 ton/year processing facility changed due to equipment shortages after the hurricane season in the summer of 2005. It should be understood that the pricing environment for mining equipment is extremely volatile due to material scarcities, but destruction in the Gulf States created further imbalances. The Company then decided to proceed with a 2,000,000 ton/year facility, due to economies of scale, and pursued sales partnerships with Asian steel companies.

Management believes that the Company can maximize shareholder value by putting the project into production. The decision to proceed with the design and construction of processing facilities without performing a modern, NI 43-101 compliant resource study or subsequent feasibility study, was made with consideration to a number of risks. Project risk is mitigated to some extent by the fact that the project has seen commercial operations in the past and has provided feed material to steel mills. This fact does not guarantee that there is presently sufficient material at a sufficient grade to support the resumption of mining at Iron Mountain, although Palladon believes in the integrity of the predecessor companies' reporting standards.

The larger risks are time, capital, and availability of materials. Greater risk is created by the resurgence of the mining industry in general, which has placed a premium on scarce materials, equipment, and personnel. Also to be considered was the time required to thoroughly re-drill Iron Mountain and perform the requisite feasibility study.

The hurricanes that devastated the gulf coast of the United States delayed progress due to the difficulty in procurement of power poles, wiring, transformers, switches and steel structures. Once the delays eased, prices started a dramatic upward trend for all mining related equipment. This was also stimulated by rising mineral costs.

Management is making every effort to rapidly and professionally design, engineer and construct the mill at Iron Mountain as mineral processing equipment prices, supply, and delivery cannot be guaranteed in a robust minerals market. The Company is doing everything possible to keep costs at a minimum and expedite the schedule wherever possible.

Sampling

On June 15, 2005, the Company received results of composite bench samples taken from three major areas in the Comstock/Mountain Lion pit by an independent consultant, prepared by Dawson Metallurgical Laboratories (“Dawson”) of Salt Lake City, Utah and assayed by Lerch Brothers of Minnesota. The composite material assayed 56% Fe. Dawson also performed metallurgical testing to determine if the iron product could be upgraded to a saleable grade greater than 63.5% Fe. The final product produced by magnetic separation assayed 68% Fe.

Business Development

On August 2, 2005, the Company signed a contract with a Chinese purchaser to sell one million tons of fine iron ore concentrate over a twelve-month period commencing upon start-up and shipping. The contract provided for standard commercial terms, including the posting of a letter of credit.

Gilbert Development Corporation (“Gilbert”) of Cedar City, Utah was selected as the contract miner for the Iron Mountain Project. Gilbert was the contract miner for Geneva Steel and US Steel for more than 15 years at the Iron Mountain location.

During the summer and fall months of 2005, the Company focused on the following site preparations: the old facilities were demolished and scrap removed from the site to make way for the new operating facilities, and the installation of two one-mile interchange tracks was initiated at Iron Springs, at the junction of the Union Pacific Cedar City line and Palladon’s short line.

Future Developments

Future developments for the project will be the continued design and construction of an iron ore processing facility, expandable from the initial projected capacity of 2,000,000 to 4,000,000 metric tonnes per year. The Company intends to sign short term purchase orders for iron ore concentrates in 2006.

In conjunction with a mine life study and exploration program, the Company intends to initiate studies on additional production scenarios, including direct reduction or rolled steel facility, at the appropriate time.

Western Utah Copper Project

Palladon Ventures, in conjunction with its joint venture partner, Western Utah Copper Company (“WUCC”) conducted intensive work on exploration drilling, preparation and finalization of a NI 43-101 report, and preparation of a feasibility study. Drilling was focused on the Candy B area, an extension of the Hidden Treasure and Maria areas. The technical report was prepared by Mine Development Associates (MDA) of Reno, Nevada and was published on Sedar on September 16, 2005. The technical report concluded the following:

1. A Phase 1 budget to be used to develop and improve the knowledge of the known historic resource.
2. A Phase 2 feasibility study should be done for mining the areas of known mineralization and follow-up for the resource developed in Phase 1.
3. The Milford Mineral Belt is highly perspective for porphyry copper deposit(s), as well as developing additional skarn deposits.

Drilling and exploration continued during the year on the Exploration JV, concentrating on the areas previously identified as having historic resources or production. This enabled a more focused approach to the drilling program with three drill rigs employed to drill areas that were untested as indicated in the available data. During the year, over 1500 metres (5000 feet) of reverse circulation drilling together with an additional 3,350 metres (11,000 feet) of core drilling has been completed. Results from one area, near the historic Beaver carbonate mine, revealed a high-grade copper mineralization at depth of 213-223 Metres (approximately 650 feet). The Company is planning additional drilling in this area to verify the extent of this mineralization in addition to the continuing in the other historic areas. Previous reports prepared by predecessor companies on portions of the property have identified resources in the district that include gold, copper, silver, tungsten and molybdenum

Many of the reports of the area’s historic resource figures were calculated before NI 43-101 standards and guidelines were enacted and the Company continues to review all available documents to enhance its knowledge of the area, which now covers some 40,468 Hectares (approximately 100,000 acres).

As of year-end, we were encouraged by the results achieved to date and the mineralization detected in the drill cores. Future work will include additional drilling in the Candy B area.

Argentina

The Deseado Massif and the northern province of Salta in Argentina are the focus of our South American operations. The Company is reviewing previous sampling results for the potential expansion of activities in the coming year. Property payments were made towards maintaining purchase option agreements on the Taca Taca and Tres Hermanas projects.

The company entered into an option agreement signed May 2005 and amended December 15, 2005, pursuant to which it may earn a 60% interest in certain gold exploration projects covering a total of 3,000 hectares in the province of Salta, Argentina. The projects are adjacent to, and surround the eastern portion of the Taca Taca claims in which Palladon had previously acquired an interest. Consideration for the option consists of a total of 50,000 common shares issued to Argentine Frontier Resources Inc. on September 15, 2005 and the option to issue up to a further 700,000 shares in periodic issuances to December 8, 2008, in the event that Palladon elects to continue to exercise its option. In addition, Palladon must incur exploration expenses on the

properties and make a payment of \$75,000 to AFRI by December 8, 2005. Palladon thereafter has periodic exploration expenditure requirements totaling an additional \$1,350,000 to December 8, 2008, and additional payments totaling \$325,000 to December 8, 2008, should it elect to proceed with earning its interest in the properties. (For details see note 6e in notes to the consolidated financial statement)

Management views these properties as highly perspective, but has maintained their interest for further evaluation and consideration for future exploration programs.

Nevada Exploration Projects

Great Basin Gold

In September of 2004, the Company optioned five gold projects covering 3,130 hectares (7,740 acres) in Utah and Nevada. Those properties include the following:

Caldera, Nevada

The Caldera property is located in the Walker Lane region in west-central Nevada and currently encompasses over 810 hectares (2000 acres) of unpatented claims. The property exhibits widespread volcanic-hosted epithermal gold/silver mineralization similar in style to other major systems in the vicinity: the Round Mountain mine (14 million ounces) and Newmont's Midway project. Previous surface work on the property has generated abundant ore-grade rock chip samples (up to ≥ 1 opt gold and ≥ 20 opt silver) scattered over an area at least 2.4 by 0.8 kilometers (1.5 miles long by 0.5 miles wide). Drilling has intersected ore-grade values in at least three areas including 3.04 meters (10 feet) at 1.1 opt Au, 7.6 meters (25 feet) at 0.25 opt Au, and 30.5 meters (100 feet) at 0.03 opt Au at depths of less than 152 meters (500 feet). These intercepts have not been sufficiently followed up and several surface anomalies remain untested. Caldera has outstanding potential to host both bonanza-grade veins and bulk tonnage lower grade ore bodies.

Kings Canyon, Utah

The Kings Canyon property is located in the Great Basin region in of west-central Utah and currently encompasses 875 hectares (970 acres) of unpatented claims and a state minerals lease. Gold mineralization is a Carlin style system hosted at shallow depths in Paleozoic carbonates and controlled by steep feeder faults. The property is immediately adjacent to and enclosed on three sides by a separate block of claims held by Crown Resources that contains a resource of $\geq 200,000$ ounces of gold. This defined mineralization trends directly onto the Genesis property where it is inadequately tested. In addition, many additional mineralized faults have been delineated on the property, which define numerous untested targets in areas where the favorable horizon is at very shallow depths. The property has the potential to host several hundred thousand ounces of near-surface oxide gold mineralization with low production costs.

Windermere, Nevada

The Windermere property is situated in northeast Nevada and covers nearly 810 hectares (2000 acres) of unpatented mining claims and leased fee land. The Windermere prospect is a massive silicified area in upper Paleozoic carbonate and clastic rocks covering several square miles that have never been drill tested. Surface sampling of this system has demonstrated very strong anomalies of pathfinder elements, including arsenic (up to 86,000 ppm), antimony (up to ppm 133), and mercury (up to 100ppm) along with gold values of up to 350 ppb. The system is believed to represent either a large hot spring system similar to MacDonald Meadows in Montana or the upper level silicified cap above a high-grade high-sulfidation system like El Indio, Chile.

Tobin, Nevada

The Tobin Property is situated in central Nevada and covers 100 hectares (240 acres) of unpatented mining claims. At and around the Tobin Property, abundant silicification typical of epithermal gold deposits occurs over several square miles as it does at the nearby Goldbanks property, which contains several million ounces of both low-grade and high-grade gold mineralization. The silicification takes the form of both structural and stratabound jasperoids in a favorable sequence of Mesozoic carbonate and clastic rocks. Altered rocks contain highly elevated metal values with up to 0.067 opt gold, 1100 ppm arsenic, over 200 ppm antimony, and up to 29 ppm mercury. None of the geochemical anomalies have been drill tested. The strength of the alteration at Tobin demonstrates a large system with the capacity to host both bonanza grade veins and bulk tonnage lower grade deposits.

Green Springs, Nevada

Green Springs is situated in central Nevada and covers 540 hectares (240 acres) of unpatented mining claims. These claims encompass the down dip projections of Carlin-style gold deposits which were mined in the late 1980's by the USX Corp., producing approximately 60,000 ounces of gold at a grade of 0.06 opt Au. Alteration in the area is widespread yet previous exploration was narrowly focused along one target horizon. It is believed the district is ripe for a thorough re-evaluation and that numerous compelling new targets can be developed within this gold system. It has the potential to host several more low-cost gold ore deposits.

During the year preliminary work was carried out in preparation for the 2006 summer program on the Nevada and Utah properties. Drill site permitting has been initiated and a reclamation bond has been paid to enable the planned drilling program to begin. Additional analysis of sample results are being carried out to ensure exploration focused on the most probable drilling targets. Budgets requests totaling of \$1.2 million were approved for the 2006 year by management.

1.3 Selected Annual Information

	Years ended		
	28-Feb <u>2006</u>	28-Feb <u>2005</u>	28-Feb <u>2004</u>
Total revenues	\$ -	\$ -	\$ -
Loss before discontinued operations and extraordinary items	\$ (4,973,399)	\$ (1,862,960)	\$ (585,199)
Basic and diluted loss per share before discontinued operations and extraordinary items	\$ (0.17)	\$ (0.08)	\$ (0.08)
Net loss	\$ (4,973,399)	\$ (1,862,960)	\$ (585,199)
Basic and diluted loss per share	\$ (0.17)	\$ (0.08)	\$ (0.08)
Total assets	\$ 31,538,732	\$ 8,706,945	\$ 7,904,342
Total long-term liabilities	\$ 14,631,900	\$ 734,250	\$ 1,068,000
Cash dividends per share	\$ -	\$ -	\$ -

1.4 Results of Operations

Year Ended February 28, 2006

The company's losses for the years ended February 28, 2006 and 2005 were \$4,973,399 and \$1,862,960 respectively, an increase of \$3,110,439. A strengthening of the Canadian dollar against the \$US produced an unrealized gain of \$1,273,524 (2004 Loss: \$(346,949) which helped offset an overall increase in general and administrative expenditure for the year of \$4,229,125. This increase can be attributed mainly to interest payments associated with the funding of the Iron Mountain project, to its venture partner, Luxor Capital Partners, totaling \$3,205,907 (2005: \$99,781) and \$3,161,067 being recognized in the last quarter. With increased activity occurring as the Iron project started up in earnest, consulting fees rose marginally to \$370,010 (2005: \$309,643). Similarly, Professional Fees rose to \$275,577 (2005: \$99,576) for the year along with Travel & Promotion increasing to \$342,463 (2005: \$246,309) with the majority of costs being spent during the last quarter in relation to the Iron project commencement. Stock based compensation accounted for an increase of \$248,413 as a result of options that were granted being exercised during the year. Rent of \$108,812 (2005: \$61,306) increased by \$47,506 due to additional corporate office space being taken up in the last quarters. Tight monitoring by management of costs have kept expenditure to a minimum this financial year, in spite of pressures imposed as a result of the natural disasters that strained the availability of resources and diverted materials to other priority areas within the United States.

Investment by the company in its properties for the year of \$24,330,751 continues to demonstrate the company's plans of committed development in all areas. With the purchase of the Iron Mountain Project in the first quarter, the funding and joint venturing with Luxor Capital Partners, and the formation of the subsidiary company, Palladon Iron Corporation as a Utah based company, the basis to develop the project was completed. Preliminary planning work that was undertaken during the acquisition period was able to be ratified and put into action. Expenditure on site preparation and the building of the interchange tracks are reflected in property costs of \$2,326,551 (refer Schedule 1 and 1.2). Expenditures on the Company's other interests in Nevada and South America are reviewed regularly to ensure that all costs are within the approved budgets submitted at the beginning of the year. Refer to 1.2 Overall Performance for further details.

Additionally, expenditures of \$793,905 were incurred in South America. Costs of \$616,733 were incurred on investigating new properties, but as no acquisitions were made, the costs were written off for the year.

The losses are a reflection of the current status of the corporation as a non – revenue producing company as no income is being generated at present.

1.5 Summary of Quarterly Results

The following is a summary of the Company's financial results for the eight most recently completed quarters.

	2006		2005		2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Feb. 28	Nov. 30	Aug. 31	May. 31	Feb. 28	Nov. 30	Aug. 31	May. 31
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss before discontinued operations and extraordinary items:								
Total	\$ (2,754,436)	\$ (576,874)	\$ (823,251)	\$ (818,838)	\$ (453,095)	\$ (818,158)	\$ (395,259)	\$ (196,448)
Per share	\$ (0.06)	\$ (0.02)	\$ (0.01)	\$ (0.8)	\$ (0.08)	\$ (0.03)	\$ (0.02)	\$ (0.01)
Per share, fully diluted	\$ (0.06)	\$ (0.02)	\$ (0.01)	\$ (0.08)	\$ (0.08)	\$ (0.03)	\$ (0.02)	\$ (0.01)
Net loss:	\$ (0.06)	\$ (0.02)						
Total	\$ (2,754,436)	\$ (576,874)	\$ (823,251)	\$ (818,838)	\$ 453,095	\$ (818,158)	\$ (395,259)	\$ (196,448)
Per share					\$ (0.08)	\$ (0.03)	\$ (0.02)	\$ (0.01)
Per share, fully diluted	\$ (0.06)	\$ (0.02)	\$ (0.01)	\$ (0.08)	\$ (0.08)	\$ (0.03)	\$ (0.02)	\$ (0.01)

1.6 Liquidity

As at February 28, 2006 the company had cash of \$1,676,346 and working capital of \$(1,769,496) as compared to cash of \$2,166,787 and working capital of \$2,007,195 at February 28, 2005. Resource properties held \$29,049,254 (2005: \$4,718,503). Net cash used in operating activities was \$(1,839,347) for the year, made up mainly from the net loss from operations of \$(4,973,399) and expenditures for finance charges and stock-based compensation, interest payable and mineral property write-offs. Cash was provided from the funding provided by Luxor Capital Partners of approximately \$15 million, with an additional \$6 million invested directly into Palladon Iron Corporation with respect to their 50% interest, and cash from share issues during the year of \$1.5 million and advances from related parties of \$1.6 million.

Based on funds available to the corporation at this time and the recently completed private placement in April 2006 for \$5 million with Northern Securities, and ongoing negotiations for additional funds to complete construction of the plant and railroad at Iron Mountain, and planned exploration of the other properties, the corporation believes it will have sufficient funds to meet its objectives. Because of management's continual overview of all accounting and reports, it is reasonably confident that information relating to the Company, is known to management and that the Company's controls and procedures will be effective on an ongoing basis.

1.7 Capital Resources

The capital resources of the Company include mineral properties, carried at \$29,049,254 which the company is committed to develop in line with planned budgeted expenditure for the coming year and forward. The Company's intention is to commit additional funds for continuing development and exploration activities as they become available. (refer Subsequent Events)

1.8 Off Balance Sheet Arrangements

There are no current commitments.

1.9 Transactions with Related Parties

For the year ended February 28, 2006, the Company incurred and accrued management fees of \$370,010 to directors and officers of the Company (2005: \$309,643) and rent of \$15,404 (2005: \$43,429) to directors of the Company as shown below.

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

Included as a Current Liability at February 28, 2006 is \$ 1,603,418 (February 28, 2005: \$26,863) due to related parties and included in Management Fees are salaries of \$370,010 paid to its directors in the normal course of business. Amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment. These transactions are also in the normal course of operations and are measured at the applicable rate of exchange at the time of the transaction. The related parties are George S. Young, who is also a director and a one third owner of Deseado LLC, an Argentinian company and Miguel Di Nanno who is the manager of South American operations and also a director of Deseado LLC. Related parties may also be reimbursed for out of pocket expenses incurred on the company's behalf.

1.10 Fourth Quarter

The Company's loss for this Quarter was \$2,754,436 (February 28, 2005 \$453,095) due mainly to the commencement of interest payments on funding for the Iron Mountain project, increases in professional & consulting fees for work carried out on that project and corresponding increases in general & administration fees supporting the start up. In addition the company wrote off costs incurred as classified as Other Projects in South America of \$616,733 in accordance with generally accepted accounting practice. The company is exposed to currency exchange rate risks to the extent of its operations in the United States and South America but both countries are considered stable environments, so the company does not maintain any hedge positions.

1.11 Proposed Transactions

Commitments relating to the Iron Mountain development include the upgrade & completion of the railroad link to the mine sight of some \$2.5 million, plant construction of \$10.3 million, purchase or lease of 600 rail cars from National Steel Car Ltd of Canada at a value of approximately \$51 million and a power sub station contract of another \$1.2 million. Management is currently negotiating suitable funding for all this capital expenditure and details will be released as they are finalised. (Refer to Note 1.7)

Contractual Obligations include an initial \$1.2 million to Gilbert Development Corporation to purchase crushing equipment and mobilize for the construction on the crushing plant. The company also has a commitment with Gilbert Development to provide mining services and crushed feed for the grinding mill.

The Company has entered into a lease for the Utah corporate offices with an option to extend. Annual lease payments required are as follows:

Year ended February 28, 2007	\$108,570
February 28, 2008	\$111,827
February 28, 2009	\$115,162

To the best of its knowledge, the management believes that it is in compliance with all the applicable laws and regulations, including Environmental laws and regulations. As required by law, the company carries a \$1.3 million Reclamation Bond for the Iron Mountain project.

1.12 Critical Accounting Estimates

A summary of significant accounting policies that are adopted by the corporation may be found in the Notes to Accounts, Notes 2 & 3, attached to the Financial Statements for the year ended 2006. As stated, the company is required to conform to the Canadian generally accepted accounting principles, which require management to establish accounting policies and to make estimates that affect both the amount & timing of recording of assets, liabilities, expenses & revenues when applicable. Therefore, judgments made regarding these estimates, by their nature, are inherently uncertain. Management regularly reviews all projects a part their ongoing process and this also requires estimates, which are subject to various risks and uncertainties, and may affect the expected values & expenditures of those properties The company defers the cost of acquiring, maintaining its interests, 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 mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations when written off.

1.13 Change in Accounting Policy

There have been no changes to accounting policies for the year.

1.14 Financial Instruments and Other Instruments

The carrying value of the Company's financial instruments, consisting of cash, accounts payable and accrued liabilities and due to related parties 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 or credit risks arising from these financial instruments. The carrying value of the loans receivable last year also approximated its fair value. 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.

1.15 Other MD& Requirements

Additional information relating to the Company is on SEDAR at www.sedar.com

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	328,815	118,373
	- at \$0.50	1,101,280	550,640
	- at \$0.80	723,666	578,933
	- at \$0.85	152,986	130,038
Pursuant to conversion of convertible debentures	- at \$0.69	1,192,148	822,582
Less: share issue costs		-	(20,723)
Pursuant to exercise of options	- at \$0.45	200,000	90,000
	- at \$0.50	290,000	145,000
	- at \$0.70	250,000	175,000
	- at \$0.75	100,000	75,000
	- at \$0.80	50,000	40,000
Pursuant to exercise of agent’s options	- at \$0.75	28,562	21,422
	- at \$0.85	125	106
Transfer from contributed surplus on exercise of options		-	187,501
Pursuant to mineral property agreements	- at \$0.87	250,000	217,500
	- at \$0.55	800,000	440,000
	- at \$0.40	900,000	360,000
	- at \$0.65	<u>150,000</u>	<u>97,500</u>
Balance, February 28, 2006		<u>31,977,109</u>	<u>\$ 20,208,913</u>

Escrow shares:

As at February 28, 2006, 37,500 (February 29, 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 years ended February 28, 2006 and ended February 29, 2005 are summarized as follows:

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

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

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

Share Purchase Warrants

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

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
249,110	\$0.86	April 26, 2006
283,867	\$0.86	March 5, 2007
40,925	\$0.86	July 21, 2007
40,949	\$0.86	July 22, 2007
106,838	\$0.86	August 8, 2007
62,389	\$0.86	October 6, 2007
61,107	\$0.86	October 19, 2007
<u>2,357,137</u>	\$0.62	September 23, 2007
<u>3,202,322</u>		

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

Stock-based Compensation

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

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

Subsequent Events

Also subsequent to February 28, 2006

Subsequent Share Issues:

	<u>\$/unit</u>	<u>Number of Shares</u>	<u>Amount</u>
Balance February 28, 2006		31,977,109	\$ 20,208,913
Private Placement	\$ 0.50	10,000,000	\$ 5,000,000
Broker Warrants	\$ 0.50	157,480	\$ 78,740
Balance June 12, 2006		<u>42,134,589</u>	<u>\$ 25,287,653</u>

Subsequent to the year end, the company closed a financing by private placement on March 16, 2006. The offering was increased after the original proposal to raise \$2,000,000 was raised to \$5,000,000, consisting of sale of 10,000,000 units priced at \$.50 per unit. Each unit consisted of one common share and one common share purchase warrant priced at \$0.75 for a period of 24 months. The placement closed on April 3, 2006.

Subsequent to year-end, the Company also announced the appointment of an operator for the Palladon Short Line, appointed a new Director of Operations, and hired Samuels Engineering of Denver, CO, for the design of the processing plant. The Company also hired Lamb Contracting for power substation and design.

On May 23, 2006, the Company announced an agreement with Maestro Ventures Ltd., (MAP:TSX.V) to develop Palladon's portfolio of gold exploration properties in Nevada. Maestro agreed to assume the US\$1.2M exploration budget for 2006 and spend US\$5M over 5 years to earn a 75% interest. Maestro also agreed to issue to Palladon 450,000 common shares to Palladon upon TSX Venture Exchange approval.

Palladon selected a Canadian railcar manufacturing company to lease 600 oversized rail cars (114-ton capacity) for the project. These cars, combined with up to 240 rail cars provided by the Union Pacific, will enable Palladon to reach a 2,000,000 MT per year shipping capacity. In addition, with the 14.1 mile spur line, Palladon is required to select a shortline operator to handle movement of the iron ore concentrate. The Albany and Eastern Railroad Company (“A&E”), of Lebanon, Oregon was selected as the operator. Mike Root, President of A&E will relocate with some of his staff to operate Palladon’s shortline.

The company announced on June 30, 2006 that it had arranged a non-brokered placement, subject to TSX Venture Exchange approval, of 4,545,455 units at a price of \$0.55 per unit. Each unit consists of one common share plus one-half common share purchase warrant. The warrant will entitle the holder to purchase one common share at a price of \$0.70 for a period of 24 months from closing. A finder’s fee of 10% of the proceeds will be paid on closing.
