

PALLADON VENTURES LTD.
MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ending May 31, 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 unaudited financial statements for the three months ending May 31, 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: August 8, 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.

Activities During the Quarter

In conjunction with the acquisition of the Iron Springs JV Property, Palladon acquired 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 from a part of this data. That 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. During the quarter, the report was updated to include historic resources of 139,354,000 Tons, giving a total of 172,589,554 tons grading 44% Fe, so far identified on the property.

On March 17, 2006 the Company announced the selection of Samuels Engineering of Denver Colorado to provide project engineering design services. Samuel Engineering, Inc. is a multi-discipline, high performance engineering and design company providing high quality services in civil, structural, electrical, chemical, and metallurgical engineering, and in instrumentation and

controls, process, wiring, piping and plant and site design services, primarily to the heavy industrial sectors.

As one of its first duties, Samuel Engineering aided Palladon Iron Corporation in the selection and procurement of a 15 foot by 22.5 foot used ball mill. The initial search for a mill started in the Philippines where a ball mill in excellent condition was located. In further evaluating mills available, a used mill was discovered just 30 miles west of Salt Lake City, Utah. Samuel Engineering and other consulting engineers evaluated the mill's condition. Upon completion of testing, it was determined that the mill could provide 5-10 years of satisfactory service after refurbishment. The mill was purchased and parts sent to various fabrication facilities to put back into operating condition.

On April 17, 2006, the Company announced that it had selected the Albany and Eastern Railroad Company ("A&E") of Lebanon, Oregon as Palladon's shortline railroad serving the Iron Mountain project. Palladon and A&E will independently operate the 14.4-mile shortline railway, which runs from the Comstock/Mountain Lion iron ore mine to Iron Springs where it connects with the Union Pacific rail line. Mike Root, president and owner of A&E, will delegate management of his 67-mile Oregon railroad to experienced A&E personnel, and will establish permanent residence in Cedar City, Utah.

To better manage the development and construction of the Iron Mountain mine and mill, Mr. Greg D. Hawkins was appointed as Palladon Iron's Director of Operations. Mr. Hawkins has spent the last three years in general management roles and as Vice President for Excavation and Rock Products, where he was responsible for project engineering, project management, scheduling, maintenance, and health and safety. Prior to this assignment he spent 13 years with Brush Resources where he started as Mine Manager and progressed to become Resources Manager/VP, in which capacity he directed all aspects of mining as well as engineering, operations, maintenance, purchasing and employee health and safety.

The Company announced the selection of Lamb Contracting Inc., of Bountiful, Utah as a partner in the development of the Iron Mountain power substation. Lamb will provide general contracting services for the construction and deployment of the power substation at the mine site, overseeing the excavation, grounding, trenching, grid installation, fencing and pouring of the cement pad for the transformer. Once the pad is poured, the work will include building of the control house, installation of the switching gear, installation of the controls and high voltage wire, installation of the circuit switcher, and final installation of the transformer previously purchased from ABB. In addition, Lamb Contracting will install all poles and wire to provide connection to the 138kV main line owned by Rocky Mountain Power (formerly Utah Power and Light). Finally, they will commission the substation.

Studies performed during the quarter revealed that rock and sand materials in the onsite waste dumps at Iron Mountain potentially provide a convenient source of aggregate material for the production of high-strength concrete. Palladon requires approximately 5000 cubic yards of concrete for the foundations of the processing plant and substation. Palladon will be able to meet its entire requirement for aggregate and sand on-site, thus eliminating the need to truck the material to site. A local contractor will operate a batch plant on the Iron Mountain site. All cement powder needed for concrete manufacture has also been procured.

On May 30, 2006 the Company announced an increased historic resource update of 172,597, 554 tons (156,578,050 metric tons) averaging 44% Fe. Included in this amount was 33,233,554 tons at 47.4% that was reported in a 2005 NI 43-101 technical report.

Financing

On March 16, 2006, Palladon Ventures Ltd. announced that it had entered into an agreement to raise up to \$2 million dollars to further develop its iron ore project, through a brokered private placement on a best efforts basis with Northern Securities Inc., acting as agent, at a price of \$0.50 per unit, with each unit consisting of one common share and one common share purchase warrant, with each whole warrant exercisable at \$0.70 for a two year period.. The Agent was granted an option to offer for sale up to an additional \$1.0 million of Units at a price of \$.50 per unit exercisable until closing.

The Agent was entitled to a cash commission of 8% of the aggregate gross proceeds raised in the offering. The offering also provided that the Company would also grant the Agent warrants equal to 10% of the Units sold under the Offering. Each Broker Warrant will entitle the Agent to purchase one Unit at a price of \$0.50.

On March 22, 2006, Palladon Ventures announced that the offering had been increased from \$2 million to \$5 million. The offering would consist of the issuance of up to 10 million units priced at \$0.50 per unit and will consist of one common share and one common share purchase warrant. The financing closed on April 3, 2006. Gross proceeds raised were \$5 million. .

Future Developments

Future developments for the project will be continuation of the design and construction of an iron ore processing facility, expandable from the initial projected capacity of 2,000,000 to 4,000,000 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 construction of direct-reduction iron and rolled-steel facilities, at the appropriate times.

Nevada Exploration Projects

On May 23, 2006, Palladon Ventures announced that the Company entered into an option agreement with Maestro Ventures Ltd. for development of the gold exploration properties in the Great Basin of Nevada and Utah.

Maestro will issue 450,000 common shares of Maestro ventures to Palladon and has agreed to invest \$US 5, million over a period of five years to earn a 75% interest in the properties. Maestro also agreed to immediately assume property expenditures and exploration budgets of \$US 1,200,000 for 2006.

1.3 Selected Annual Information

1.4 Results of Operations

Quarter Ended May 31 2006

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	
	Q1 May-06	Q4 Feb. 28	Q3 Nov. 30	Q2 Aug. 31	Q1 May. 31	Q4 Feb. 28	Q3 Nov. 30	Q2 Aug. 31
Total revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss before discontinued operations and extraordinary items								
Total	(1,872,190)	(5,032,424)	(576,874)	(823,251)	(818,838)	(453,095)	(818,158)	(395,259)
Per share	\$ (0.05)	\$ (0.17)	\$ (0.02)	(0.01)	\$ (0.37)	\$ (0.08)	\$ (0.03)	\$ (0.02)
Per share, fully diluted	\$ (0.05)	\$ (0.17)	\$ (0.02)	(0.01)	\$ (0.37)	\$ (0.08)	\$ (0.03)	\$ (0.02)
Net loss:								
Total	\$ (1,872,190)	\$ (5,032,424)	\$ (576,874)	(823,251)	\$ (818,838)	\$ (453,095)	\$ (818,158)	(395,259)
Per share						(0.08)	\$ (0.03)	\$ (0.02)
Per share, fully diluted	\$ (0.05)	\$ (0.17)	\$ (0.02)	(0.01)	\$ (0.37)	\$ (0.08)	\$ (0.03)	\$ (0.02)

1.6 Liquidity

At the end of the quarter the company had \$ 573,748 in cash and \$ 33,726,138 in resource properties. The Company intends to continue exploration and development work in accordance with its planning and agreements. For further details regarding this work refer to the Year End Management Discussion and Analysis available on the corporate website.

The Company has a working capital of \$ 573,748 and all obligations have been paid or are in the process of being met by additional refinancing currently being negotiated. Management, at the date of this report, is confident that sufficient funds will be available for it to continue with its development, construction and production planning.

1.7 Capital Resources

The capital resources of the Company include mineral properties, carried at \$ 33,726,138, 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 quarter ended May 31 2006, the Company incurred and accrued management fees of \$85,210 to directors and officers of the Company (2005: \$120,514) and rent of \$10,231 (2005: \$12,323) to directors of the Company as shown below.

Three Months Ended May 31

	<u>2006</u>	<u>2005</u>
Management Fees	\$ 85,210	\$ 120,514
Rent	\$ 10,231	\$ 12,323
	\$ 95,441	\$ 132,837

Related Parties

Included as a Current Liability at February 28 2006 is \$ 1,668,495
May 31 2005) due to related parties.

Related Parties

Allan Williams-Director	\$ 8,779	
Miguel DiNanno	\$ 22,514	
G.S Young - President	\$ 1,637,202	
	\$ 1,668,495	

Included as a Current Liability at May 31, 2006 is \$ 1,668,495 (February 28 \$ 1,668,495) due to related parties and included in Management Fees are salaries of \$ 0.00 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 First Quarter

The Company's loss for this Quarter was \$ (1,123,083) (May 31 2006) 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. 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 and completion of the railroad link to the mine site of some \$2.5 million, plant construction of \$15.3 million, purchase or lease of 600 rail cars from National Steel Car Ltd of Canada at a value of approximately \$48 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 Note 1.7)

Contractual Obligations include an initial \$1.2 million to Gilbert Development Corporation to purchase crushing equipment and mobilize for the construction of 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 Statement 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>Shares</u>	<u>Amount</u>
Balance, February 28, 2006	31,977,109	\$ 20,208,913
For Cash:		
Pursuant to private placements - at \$0.50	10,000,000	5,000,000
less		
Share Issuance costs	<u>-</u>	<u>(490,000)</u>
Balance, May 31,, 2006	<u>41,977,109</u>	<u>24,718,913</u>

Escrow shares:

As at May 31, 2006 \$ 37,500 (May 31, 2005: \$ 37,500) common shares are held in escrow subject to direction for their release by regulatory authorities.

Commitments:

Stock-based compensation

The company may grant share purchase options to directors, officers or employees to acquire shares of the Company. Unless otherwise noted, the share purchase options vest when granted. Share purchase option activities for the three months ended May 31 , 2006 and May 31 , 2005 are summarized as follows:

	Three Months Ended May 31 2006		Year Ended February 29, 2006	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	1,975,000	\$ 0.66	1,590,000	\$ 0.51
Granted	290,000	\$ 0.80	1,135,000	\$ 0.75
Exercised	-	\$ -	-500,000	\$ -
Expired	-	\$ -	<u>-250,000</u>	\$ -
Agents Options Granted	1,000,000	\$ 0.50		
Outstanding and exercisable, End of year	3,265,000	\$ 0.62	1,975,000	\$ 0.66
Exercisable at the end of the period	<u>3,265,000</u>		<u>1,975,000</u>	

As of May 31, 2006, there were 3,265,000 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 May 31, 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 of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,000,000	\$0.50	March 31, 2008
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
350,000	\$0.75	April 21, 2010
625,000	\$0.75	August 29, 2010
160,000	\$0.75	November 10, 2010
<u>290,000</u>	\$0.80	April 18, 2011
<u>3,265,000</u>		

Share Purchase Warrants

As at May 31, 2006, the Company had 12,795,732 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 15, 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
2,199,657	\$0.62	September 23, 2007
<u>10,000,000</u>	\$0.75	March 31, 2008
<u>12,795,732</u>		

Subsequent to May 31, 2006, share purchase warrants outstanding at May 31, 2006 entitling the holder to purchase shares at \$0.86 per share expired unexercised.

Stock-based Compensation

During the period ended May 31, 2006, the Company recognized charges associated with share purchase options granted. The fair value of share purchase options granted for directors, officers and employees was \$176,900 (2006: \$175,000). The fair value of share purchase options granted to the Agent for the brokered private placement was \$247,000. The fair value was determined using the Black-Scholes model with the following assumptions:

May 31,	<u>2006</u>	<u>2005</u>
Expected dividend yield	0%	0%
Expected stock price volatility	89% to 100%	69 to 100%
Risk-free interest rate	3.99 to 4.26%	3.42 to 3.86 %
Expected life in years	2 – 5 years	2 – 5 years

Contributed Surplus

	<u>May 31,</u> <u>2006</u>	<u>February 28,</u> <u>2006</u>
Balance, beginning of period	\$ 1,173,071	\$ 542,492
Fair value of share purchase options granted	423,900	550,700
Fair value of share purchase warrants granted on debenture conversion	-	196,705
Fair value of share purchase warrants granted with loan payable	-	895,712
Less: value transferred on exercise of options	-	(187,501)
Less: deferred finance charge	-	(825,037)
	<u> </u>	<u> </u>
Balance, end of period	<u>\$ 1,596,971</u>	<u>\$ 1,173,071</u>

Subsequent Events

Also subsequent to May 31, 2006 , 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	\$ 0.62	10,000,000	\$ 5,000,000
Broker Warrants	\$ 0.50	157,480	\$ 78,740
Private Placement	\$ 0.55	1,400,000	\$ 770,000
Balance July 31 2006		<u>43,534,589</u>	<u>\$ 26,057,653</u>

Subsequent to May 31, 2006:

Private Placement

On July 20, 2006 Palladon Ventures Ltd. closed the first tranche of a non-brokered private placement announced June 30, 2006. Upon closing, the Company raised gross proceeds of \$770,000 through the issuance of 1,400,000 units offered at a price of \$0.55 per unit. Each unit consists of one common share and one-half of one non-transferable common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share at \$0.70 for a period of 24 months from closing. The Company will use the net proceeds for general corporate purposes.

The 1,400,000 units were purchased by two funds (the "Luxor Funds") managed by Luxor Capital Group, LP ("LCG"), 767 Fifth Avenue, New York, NY, 10153 (representing 4.75% of the common shares of the Company, including the shares underlying the common share purchase warrants). After giving effect to the private placement, the Company has 43,534,589 common shares outstanding and LCG exercises control over 5,493,200 common shares and 3,057,137 common share purchase warrants. The aggregate security holding percentage of common shares of Palladon held by Luxor Funds is 18.35%, including the shares underlying the common share purchase warrants.

LCG has advised the Company that LCG's purchase has been made for investment purposes. Neither the Luxor Funds nor LCG has made any determination with respect to the future ownership of, or control over, any additional shares. LCG has advised the Company that it will file a report with respect to its purchase of securities in accordance with applicable securities legislation. A copy of such report, once filed, will be available at www.SEDAR.com. A copy of the report may also be obtained from the Company.

All securities issued under the private placement will have a four-month holding period expiring on November 20, 2006.

Test Shipments Underway

On June 27, 2006 the Company announced that it had shipped Comstock iron ore by rail from Iron Springs, Utah to the Levin-Richmond Terminal (LRT) in California. As part of a test shipment, approximately 200 tons of iron ore that were previously mined, crushed, and stockpiled

by Geneva Steel were re-crushed on-site, trucked 14 miles to the interchange tracks in Iron Springs, loaded on two railcars and sent to the LRT port facility.

The LRT facility was originally designed to handle coal and is currently being upgraded to handle higher density iron ores. The LRT loading system is being rebuilt with a vibrating plate feed and upgraded grating to handle car dumping. The cars will be unloaded repeatedly to test the new installation. Testing will include the evaluation of the regulated feed system, hourly processing capabilities, loss containment, and stockpiling and environmental characteristics. The LRT port is also evaluating new ship-loading conveyor systems that will increase loading speed of the high-density material.

At the Iron Mountain mine site, Palladon is currently preparing to pour approximately 5,000 cubic yards of concrete for processing facility and power plant foundations. A period of six to eight weeks has been budgeted for foundations to cure properly before plant equipment is installed.

First Sale of Iron Ore

On July 21, 2006, Palladon Iron Corporation sold 180 tons of crushed run-of-mine ore to a cement company in Northern Utah to be used as an iron additive in the manufacture of cement. With this sale, additional opportunities for ancillary business and generation of short-term cash flow became a reality. Palladon is currently talking to various cement producers for the sale of run-of-mine ore and other iron bearing stockpiles for use in the production of cement suitable for the alkaline soils found in the Western United States.