

PALLADON VENTURES LTD.  
MANAGEMENT DISCUSSION AND ANALYSIS

**For the six months ending August 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 six months ending August 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: October 31, 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

**Financing**

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](http://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.

On August 22, 2006 the company announced that it had closed the second tranche of its oversubscribed non-brokered private placement previously announced on June 30, 2006. The second tranche raised gross proceeds of \$1,982,474 through the issuance of 3,604,497 units at a price of \$0.55 per unit. Each unit consists of one common share and one-half of one transferable common share purchase warrant. Each 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 of the offering for general corporate purposes. All securities issued under the second tranche of the private placement will have a four-month hold period expiring on December 19, 2006.

## **Operations**

On June 27, 2006 the Company announced that it had shipped 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.

### **First Sales 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 a flux 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.

Palladon's second sale of iron ore from the Iron Mountain project near Cedar City, Utah was announced on August 28, 2006. The order was a 500-ton shipment of crushed feed material to a cement industry customer, who trucked the material from the mine site. The material is from a stockpile holding approximately 100,000 tons of iron ore grading an average of 56% Fe. This material was mined, crushed, and stockpiled by Geneva Steel prior to the shutdown of their operations at Iron Mountain in 1996. Permitting has been approved for the removal of these materials under existing reclamation bond agreements.

Many cement plants in the southwestern United States use up to 5% iron content as flux material in cement processing. Pure magnetite can also be mixed with other mill scale products as feed, thus Iron Mountain potentially represents an excellent source of run-of-mine ore or stockpiled feed material for cement producers in the region. Palladon intends to sell the rest of the Geneva stockpile and evaluate other stockpiles for commercial viability for this new business channel. In addition, run-of-mine ore does not require additional processing once crushed and will initially be purchased at and shipped from the mine site.

### **Joint Venture**

On August 28, 2006 Palladon announced that the Company has restructured its joint venture on the Western Utah copper project in Milford, Utah. Under the restructuring, the Western Utah Copper Company, Palladon's joint venture partner ("WUCC"), has the option to purchase Palladon's interest for US\$13 million in cash and royalty payments at any time on or before January 4, 2007. In the event the option is not exercised, Palladon has the option for a period of 60 days thereafter to purchase WUCC's interest for the same consideration, plus amounts expended by WUCC on the production properties since March 2006.

The copper joint venture restructuring allows Palladon to focus both efforts and cash resources more effectively on the development of the Iron Mountain Project. In addition, in the event that WUCC does not exercise its option, the Company has the opportunity to acquire its interest, which will enable us to develop the project on a 100% basis in the future, after our iron project is in production. This provides an excellent opportunity to develop and operate in an orderly manner to build value for our shareholders.

Successful completion of additional process testing by Palladon Iron Corporation at Midland Research Center in Nashwauk, Minnesota was completed. Midland completed a full round of grind/release tests on ore from the property at Iron Mountain, Utah. The Company felt it was important to confirm the results of earlier testing at Dawson Metallurgical Laboratories in Salt Lake City. The earlier results were confirmed, showing that the Company can produce, without any difficulty, a high-grade iron ore concentrate that will be acceptable anywhere in the world. This confirmation testing is essential in a project of this magnitude to assure process design and metallurgical performance is optimized for ores from various locations in the mine.

Final testing for the sizing of plant equipment is nearing completion at Coleraine Materials Research Laboratory in Minnesota and at WesTech Salt Lake City, so that process flow diagrams can be issued by the last week of August.

On August 30, 2006, the Company announced that Paul Higgins has resigned as Chief Financial Officer and a director of the Company. The Board of Directors has appointed Donald G. Foot Jr. as Acting Chief Financial Officer to replace Mr. Higgins. The Company's management and Board Committee changes reflect the efforts of the Company in ensuring diligent and effective corporate governance. The Company is committed to establishing and maintaining corporate governance mechanisms and procedures that will assist the Company in successfully executing its plans for the continued exploration and development of its properties.

## **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**

Not required for interim reports

## **1.4 RESULTS OF OPERATIONS**

Quarter Ended August 31, 2006

Activities in this quarter continued with the Company's planned expansion and consolidation of its properties. Iron Mountain property expenditures of \$ 1,957,211 were due to continuing geological work and preparation for future operations. The copper project near Milford incurred total costs of \$ 57,107. Exploration expenditures of \$ 900,006 were recorded for seasonal geological work and on new and existing property option agreements in Argentina. Costs are closely monitored and variances from budgets are investigated to management's satisfaction.

## 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		
	Q2 Aug. 06	Q1 May 30	Q4 Feb. 28	Q3 Nov. 30	Q2 Aug. 31	Q1 May 31	Q4 Feb. 28	Q3 Nov. 30	
Total revenues \$	-	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -	
Net loss before discounted operations and extraordinary items:									
Total	(843,786)	1,872,190	(5,032,424)	(576,874)	(832,251)	(818,838)	(453,095)	(818,158)	
Per share \$	(0.02)	(0.05)	(0.17)	(0.02)	(0.01)	(0.37)	(0.08)	(0.03)	
Per share, fully diluted	\$ (0.02)	\$ (0.05)	\$ (0.17)	(0.02)	(0.01)	(0.37)	(0.08)	(0.03)	
Net loss:		(0.05)	(0.17)						
Total	\$ (843,786)	\$ (1,872,190)	\$ (5,032,424)	(576,874)	(832,251)	(818,838)	(453,095)	(818,158)	
Per share						(0.37)	(0.08)	(0.03)	
Per share, fully diluted	\$ (0.02)	\$ (0.05)	(0.17)	(0.02)	(0.01)	(0.37)	(0.08)	(0.03)	

## 1.6 LIQUIDITY

On August 31, 2006, the Company had \$502,136 in cash and \$36,643,463 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 \$502,136 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 \$36,643,463, 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 to Subsequent Events)

## 1.8 OFF BALANCE SHEET ARRANGEMENTS

There are no current commitments.

## 1.9 TRANSACTIONS WITH RELATED PARTIES

For the quarter ended August 31, 2006, the Company incurred and accrued management fees of \$0 to directors and officers of the Company (2005: \$16,873) and rent of \$0 (2005: \$9,636 ) to directors of the Company as shown below.

	Three Months Ended August 31	
	<u>2006</u>	<u>2005</u>
Management Fees	\$ 0	\$ 16,873
Rent	<u>\$ 0</u>	<u>\$ 9,696</u>
	\$ 0	\$ 26,509

### Related Parties

Included as a Current Liability at August 31, 2006 is \$0 (May 31, 2006: \$1,668,495) due to related parties.

## 1.10 SECOND QUARTER

The Company's loss for this Quarter was \$ ( 843,786) 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 spurs completed but the upgrade of 14 miles of the track to the mine site is still pending, 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 substation 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 finalized. (Refer Note 1.7)

Contractual obligations include an initial \$1.2 million to Gilbert Development Corporation to purchase crushing and mining 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 and a commitment to Rocky Mountain Power (formerly Utah Power and Light) to provide electrical switching for the power substation.

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 CHANGES IN ACCOUNTING POLICY

There have been no changes in 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&A REQUIREMENTS

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com).

## Share Capital

Authorized:

Unlimited common shares without par value

	<u>Number of Shares</u>	<u>Amount</u>
Balance, February 28, 2006	31,977,109	20,208,913
For cash:		
Private placement - at \$0.50	10,000,000	5,000,000
Less: share issue costs, cash	-	( 490,000)
agent's options	-	(247,000)
Private placement - at \$0.55	1,400,000	770,000
Exercise of broker options - at \$0.50	278,602	208,116
	<u>43,655,711</u>	<u>\$ 25,450,029</u>
Balance, August 31, 2006	<u>43,655,711</u>	<u>\$ 25,450,029</u>

## Escrow shares:

As at August 31, 2006 \$ 37,500 (August 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 six months ended August 31, 2006 and the year ended February 29, 2006 are summarized as follows:

	<u>Period ended August 31, 2006</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 period	1,975,000	\$0.66	1,590,000	\$0.55
Granted	-	-	1,135,000	\$0.75
Agent's options granted	1,000,000	\$0.50	-	-
Exercised	(278,602)	\$0.50	(500,000)	-
Expired	<u>-</u>	-	<u>(250,000)</u>	-
Outstanding, end of period	<u>2,696,398</u>	\$0.61	<u>1,975,000</u>	\$0.66
Exercisable, end of period	<u>2,696,398</u>		<u>1,975,000</u>	

At August 31, 2006, there were 2,696,038 employee, director and agent's 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>
721,038	\$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
<u>160,000</u>	\$0.75	November 10, 2010
<u>2,696,038</u>		

The 721,038 agent's options are exercisable into units, each unit comprised of one common share and one additional share purchase warrant exercisable at \$0.75 for a period of 24 months.

### Share Purchase Warrants

At August 31, 2006, the Company had 13,932,174 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
2,357,137	\$0.62	September 23, 2007
10,000,000	\$0.75	March 31, 2008
278,962	\$0.75	July 13, 2008
<u>700,000</u>		July 20, 2008
	\$0.70	
<u>13,932,174</u>		

Note 7 Share Capital – (cont'd)

Contributed Surplus

	<u>August 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	247,000	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	(68,815)	(187,501)
Less: deferred finance charge	-	(825,037)
	<hr/>	<hr/>
Balance, end of period	\$ 1,351,256	\$ 1,173,071

SUBSEQUENT EVENTS

SUBSEQUENT TO AUGUST 31, 2006:

On September 15, 2006 Palladon announced that Donald G. Foot, Jr. has been appointed as the company's Chief Executive Officer, replacing George S. Young, who remains a director and assumes the role of Chairman. Hamish Greig has been appointed Vice President of Corporate Development, Annjanine F. Etzel has been appointed as Acting Chief Financial Officer, Steven Tong has been appointed as Corporate Secretary, and Dr. Michael G. Nelson has been reappointed as Chief Technical Officer.

On October 11, 2006 Palladon announced a comprehensive update on the status of developments at the Iron Mountain project near Cedar City, Utah.

**Business Model:** Phase one of operations at Iron Mountain will be the mining, processing, and direct shipment of magnetite iron ore concentrates. The Company intends to mine the Comstock/Mountain Lion open pit and process iron ore by crushing, grinding and upgrading by magnetic separation to a 68% iron concentrate. Iron concentrates will be shipped by rail and sold FOB at a west coast port. The Company is focused on developing sales channels for iron concentrates in the Asian steel industry.

**Progress to Date:** New transformer station grounding network had been installed, a new 50 megawatt transformer has been purchased and is fur for delivery by December 31, 2006. A processing plant has been designed, and engineering is underway to build a concentrator with an initial annual production capacity of two million metric tonnes. Metallurgical design and test work, process flow diagrams, and ball mill foundation drawings have been completed. The refurbishment of a ball mill purchased in April 2006, is scheduled for completion by the end of November, and the Company continues to

optimize engineering and economic parameters for mineral processing. The following is a summary of current project status:

**Rail & Port:** Authorization has been granted by the United States Surface Transportation Board for the operation of the newly-named Iron Bull Railroad, the 14-mile short line running between the Iron Mountain mine site and interchange tracks in Iron Springs, Utah. Mike Root and the Albany Eastern Railroad have also been authorized as the operator of the Iron Bull Railroad. Palladon Iron Corp. is the lessee. Construction of interchange tracks at Iron Springs was completed in April 2006.

**Geology:** Throughout the summer of 2006, the Company's geology department continued to analyze historic drilling data on the Comstock/Mountain Lion iron mine, which contains a current iron resource of 33,233,554 tons grading 47% Fe (see news release dated June 27, 2006). Drilling data generated through 1995 was compiled for a preliminary 3-D block model of the Comstock/Mountain Lion ore body. The drill data was based on logs from 438 historic holes drilled by the Columbia Iron Mining Company, US Steel, and Geneva Steel. The Company will use the findings of this study to guide future drilling and exploration work on the property.

**Water Rights:** Palladon has verified that its 2,000 acre-feet of water rights are secure and in good standing with the state of Utah. The property has sufficient water resources for functions such as drilling, processing, tailings disposal and dust control.

**Other Studies:** Studies performed over the last eighteen months also include reviews on historic exploration and engineering data, metallurgical studies, historic drilling studies, mine modeling studies, a rail transport and port loading study, operating and capital cost studies, and iron ore and cement industry market studies. The Company also confirmed permitting status for the resumption of mining activities.

**Revised Work Schedule:** In May of 2006, the Company outlined a series of development milestones for the construction of production facilities at the Comstock/Mountain Lion iron mine. Although significant progress has been made in engineering and logistics, the Company has not mobilized for project construction in accordance with that schedule as anticipated, due to pending funding requirements. Consequently, the Company is revising its schedule for pouring concrete and the start of plant construction. Over the summer, the Company continued its work at making final arrangements for port and rail agreements and for the execution of a sales contract with steel companies in China. Upon the completion of the major port, rail and sales agreements, the Company will then finalize financial arrangements and will advance with plant construction.

On October 19, 2006 Palladon Ventures Ltd. announced the following update on the Company's portfolio of gold exploration properties in the Great Basin of Nevada and Utah.

The TSX Venture Exchange has accepted for filing an option agreement dated May 9, 2006, between Palladon and Maestro Ventures Ltd. Pursuant to the terms of the option agreement, Maestro will issue 450,000 treasury shares of Maestro to Palladon and has agreed to spend US\$5,000,000 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 for the remainder of 2006.

Maestro plans to drill test four of the Great Basin properties over the next 12 months: Caldera, Kings Canyon, New Butte, and Green Springs, while the Tobin project will require further surface work to

develop specific drill targets. A total of 40,000-45,000 feet of reverse circulation drilling is planned. The following is a summary of work plans for 2006/2007.

Caldera, Nevada: Approval is pending for drilling permits; drilling is expected to commence when a drill rig is located and contracted, likely starting in mid-November.

Kings Canyon, Utah: Soil sample results are pending and final drill sites are to be determined. Applications for drill permits have been submitted for Kings Canyon and New Butte properties.

Green Springs, Nevada: Soil sample results are pending, and an IP survey is planned for November, followed by field surveys in spring of 2007. Drilling is planned upon approval of drilling permits.

On October 24, 2006 the Company has agreed to issue a total of 3,206,836 shares at the price of \$0.50 per share in satisfaction of a debt owing to an insider of the Company. The Company expects that the proposed debt settlement will help to maintain the Company's positive working capital position.

On October 25, 2006. Palladon Ventures Ltd. announced that it has retained Ascenta Capital Partners Inc. of Vancouver, BC, to provide investor relations and financial communications services. Ascenta will receive a monthly retainer of \$5,000 for a 12-month term subject to termination by either party with 30 days written notice. Palladon will also issue as compensation to Ascenta an option, subject to regulatory approval, to purchase 200,000 common shares at an exercise price of \$0.80 per share which will be effective for a period of 30 days after the termination of the contract. The options granted will vest in accordance with TSX Venture Exchange guidelines and Palladon's stock option plan. This agreement is subject to regulatory approval.

Ascenta is a leading provider of investor relations services to public companies in Canada. Ascenta's strength is its disciplined approach to the development and execution of strategic, customized investor relations programs and services.

Also subsequent to August 31, 2006

Subsequent Share Issues:

	<u>Shares</u>	<u>Amount</u>
Balance, May 31, 2006	41,977,109	\$24,718,913
Pursuant to private placements at \$.55	1,400,000	770,000
Pursuant to exercise of warrants at \$.50	19,253	9,626
Broker warrants at \$0.50	<u>157,480</u>	<u>78,740</u>
Balance, August 31, 2006	43,533,842	\$25,577,279
Pursuant to exercise of warrants at \$.75	51,869	38,902
Pursuant to exercise of warrants at \$.75	50,000	37,500
Pursuant to private placements at \$.55	<u>3,604,497</u>	<u>1,982,474</u>
Balance, October 31, 2006	47,260,208	\$27,663,155

Subsequent Warrant Issues:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
2,357,137	\$0.62	September 23, 2007
157,840	\$0.75	March 31, 2008
823,267	\$0.75	March 31, 2008
10,000,000	\$0.75	March 31, 2008
<u>700,000</u>	\$0.70	July 19, 2008
14,038,244	Balance at August 31, 2006	
(101,869)	\$0.50	March 31, 2008 Expired 9/1/06
101,869	\$0.75	March 31, 2008 Issued 9/12/06
<u>1,802,249</u>	\$0.70	August 18, 2008 Issued 9/15/06
15,840,493	Balance at October 31, 2006	